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Legislative Audit Division

State of Montana



Report to the Legislature

March 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Department of Public Health and Human Services

This report contains 23 recommendations to the department. Major issues addressed in this report include:

- ▶ Financial management control structure.
- ▶ Lack of controls over Medicaid expenditures.
- ▶ Misstatements within the accounting records exceeding \$159 million.
- ▶ Noncompliance with the federal Cash Management Improvement Act.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

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March 2000

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Public Health and Human Services for the two fiscal years ended June 30, 1999. This is the second audit of this department since a major reorganization that was effective July 1, 1995. This audit report includes recommendations concerning implementation of an effective, efficient financial management control structure; improving controls over the Medicaid program; improving controls over compliance with federal reporting regulations, matching, and the Cash Management Improvement Act; improving controls over preparation of the department's Schedule of Federal Financial Assistance; and compliance with state accounting policy and law.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.
Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Department of Public Health and Human Services

Members of the audit staff involved in this audit were Pearl M. Allen, Laurie Barrett, Chris G. Darragh, John Fine, Wayne D. Guazzo, Cindy S. Jorgenson, Jim Manning, Christopher D. May, Emyln Javornik, Vickie Rauser, and Julie M. Ripley.

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Appointed and Administrative Officials

**Department of Public
Health and Human
Services**

Laurie Ekanger, Director

Hank Hudson, Administrator
Community and Human Services Division

Chuck Hunter, Administrator
Child and Family Services Division

Mary Ann Wellbank, Administrator
Child Support Enforcement Division

Nancy Ellery, Administrator
Health Policy and Services Division

Denzel Davis, Administrator
Quality Assurance Division

Michael Billings, Administrator
Operations and Technology Division

Joe Mathews, Administrator
Disability Services Division

Mike Hanshew, Administrator
Senior and Long Term Care Division

Dan Anderson, Administrator
Addictive and Mental Disorders Division

Department of Public Health and Human Services

We performed a financial-compliance audit of the Department of Public Health and Human Services (PHHS) for the two fiscal years ended June 30, 1999. This is the second audit of the department. PHHS was created as a result of reorganization approved by the 1995 Legislature. Chapter 546, Laws of 1995, reorganized the state's health and human services agencies effective July 1, 1995. The bill consolidated all or portions of the Departments of Social and Rehabilitation Services, Family Services, Health and Environmental Sciences, and Corrections and Human Services into one agency.

We determined the status of audit recommendations made to PHHS in the previous audit. Of the 24 applicable recommendations, PHHS implemented 12, partially implemented 7 and did not implement 5.

We issued a qualified opinion on the financial schedules for each of the two years under audit. The opinion discusses misstatements exceeding \$159 million. PHHS's policy to record revenues and expenditures in its Child Support Enforcement agency fund accounts for \$153.9 million of the misstatements. The reader should use caution when analyzing the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

This audit report contains 23 recommendations to PHHS. The issues discussed in this report include noncompliance with federal regulations concerning allowable costs, reporting, subrecipient monitoring, and cash management. Issues include discussion of various accounting errors and incomplete or nonexistent reconciliations between PHHS's primary accounting records, its subsystems, e.g. Child and Adult Protective Services (CAPS), and its federal reports. These issues could have been prevented, or detected and corrected in a timely manner, if PHHS had an efficient and effective control structure in place.

In general, a control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and

Report Summary

regulations. The five components of a control structure are control environment; management's risk assessment; control activities; information and communication; and monitoring.

These components work together to provide assurance an organization operates as management intends: the right people are in the right jobs and know how their individual responsibilities contribute to organizational objectives; management identifies its risks and takes steps to manage them; management implements policies and procedures to ensure its directives are carried out; management and its staff understand the organization's information processes and how people's roles and responsibilities interact; and management assesses the quality of its control structure over time.

PHHS management's responses to our recommendations can be found on page B-3 of the report document. The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations. Page 19

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department:

- A. Verify and document the allowability of Indian Health Service claims processed between July 1, 1997, and December 31, 1997, in accordance with federal regulations.
- B. Refund the amounts paid for unallowable or undocumented Indian Health Service claims to the Medical Assistance Program. Page 22

Department Response: Concur. See page B-5.

Recommendation #3

We recommend the department:

- A. Modify the contract with the Indian Health Service agency to clarify each claim must be submitted within 12 months of its date of service.
- B. Ensure any claims submitted for services provided by the contractor prior to July 1998 are not reimbursed with federal funds. Page 23

Department Response: Concur. See page B-5.

Recommendation #4

We recommend the department develop and implement procedures to improve compliance with federal program reporting requirements. Page 30

Department Response: Concur. See page B-6.

Recommendation #5

We recommend the department:

- A. Draw funds in accordance with federal and state regulations.
- B. Implement procedures to minimize the use of inter-entity loans and advances.
- C. Monitor the results of CMIA and request modification to the agreement when necessary.
- D. Provide adequate training and supervision to staff responsible for making cash draws. Page 34

Department Response: Concur. See page B-6.

Recommendation #6

We recommend the department:

- A. Review the Medical Assistance Program cost centers to ensure the accounting system applies the correct FMAP rates.

Report Summary

- B. Adjust the accounting records to reflect the use of the proper FMAP rates for the Medical Assistance Program cost centers during fiscal year 1998-99 and refund the necessary amounts to the Medical Assistance Program. . . . Page 36

Department Response: Concur. See page B-7.

Recommendation #7

We recommend the department:

- A. Monitor subrecipients of federal awards as required by federal regulations.
- B. Refund \$918,394 to the federal Social Services Block Grant program. Page 38

Department Response: Concur. See page B-8.

Recommendation #8

We recommend the department repay \$43,775 to the Aid to Families with Dependent Children program. . . . Page 38

Department Response: Concur. See page B-8.

Recommendation #9

We recommend the department comply with the requirement of 45 CFR part 95, subpart F, and implement a comprehensive risk analysis and system security review plan. Page 39

Department Response: Concur. See page B-9.

Recommendation #10

We recommend the department continue to improve review procedures to ensure an accurate and complete Schedule of Expenditures of Federal Awards is submitted to the Governor's Office. Page 41

Department Response: Concur. See page B-9.

- Recommendation #11 We recommend the department ensure food commodity shipments are controlled as required by department policy. Page 41
- Department Response: Concur. See page B-9.
- Recommendation #12 We recommend the department implement procedures to ensure the Child Support Enforcement Division computer systems properly reconcile to the statewide accounting system and to each other. Page 43
- Department Response: Concur. See page B-9.
- Recommendation #13 We recommend the department:
- A. Implement procedures to reconcile AWACS transactions to the primary accounting system.
- B. Complete reconciliations for fiscal years 1997-98 and 1998-99 and process necessary correcting transactions. Page 43
- Department Response: Concur. See page B-10.
- Recommendation #14 We recommend the department implement policies and procedures which will ensure timely completion and resolution of reconciliations between foster care trust accounts and the accounting records. Page 45
- Department Response: Concur. See page B-10.
- Recommendation #15 We recommend the department:
- A. Implement procedures to reconcile its subsidiary systems to its primary accounting records.
- B. Complete the reconciliations of CAPS and MMIS to the primary accounting records for fiscal years 1997-98 and 1998-99. Page 46
- Department Response: Concur. See page B-11.

Report Summary

Recommendation #16

We recommend the department:

- A. Implement procedures to properly record Agency Fund additions and deductions to property held in trust.
- B. Implement procedures to identify and record accounts receivable.
- C. Implement procedures to ensure it complies with state accounting policies concerning expenditure abatements.
- D. Review its subsidiary detail ledgers and process any necessary corrections for amounts owed to the department by local governments, amounts advanced to vendors and providers, and amounts prepaid to vendors and providers.
- E. Implement controls to ensure its subsidiary detail ledgers accurately reflect the details of accounts at the general ledger level.
- F. Implement procedures to provide assurance accounting errors are either prevented or detected and corrected in a timely manner. Page 55

Department Response: Concur. See page B-11.

Recommendation #17

We recommend the department review its cash collection and deposit procedures, simplify procedures where warranted, and implement procedures to ensure timely deposits and safeguarding of assets for third party liability collections. Page 56

Department Response: Concur. See page B-12.

Recommendation #18 We recommend the department review and revise its payroll distribution procedures to improve their efficiency and effectiveness. Page 58

Department Response: Concur. See page B-13.

Recommendation #19 We recommend the department work with the Veterans' Home and Montana State Hospital to:

- A. Reassign staff responsibilities to strengthen controls over resident accounts and warehouse inventories.
- B. Reconcile resident accounting records to bank accounts monthly.
- C. Periodically provide a statement of account to residents.
- D. Balance the resident account cash drawer to records of receipts and disbursements daily. Page 60

Department Response: Concur. See page B-13.

Recommendation #20 We recommend the department review SEARCHS table maintenance and priority lists to ensure they comply with state and federal regulations. Page 61

Department Response: Concur. See page B-13.

Recommendation #21 We recommend the department report incidents of theft or suspected theft to the Attorney General and Legislative Auditor, upon discovery, as required by law. Page 62

Department Response: Concur. See page B-15.

Recommendation #22 We recommend the department develop a health care database as required by section 50-4-502, MCA. Page 62

Department Response: Concur. See page B-15.

Report Summary

Recommendation #23

We recommend the department:

- A. Liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts; or

- B. Implement an equitable investment income distribution strategy which will allow for equitable distributions of investment earnings to the individual trust accounts. Page 63

Department Response: Concur. See page B-15.

Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Public Health and Human Services (PHHS) for the two fiscal years ended June 30, 1999. The objectives of the audit were to:

1. Determine if the department complied with applicable federal and state laws and regulations.
2. Review the adequacy of the management information system and make recommendations for the improvement of internal, financial operation, and administrative controls of the department.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the two fiscal years ended June 30, 1999.
4. Determine the implementation status of prior audit recommendations for which the department was responsible.

This report contains 23 recommendations to the department. These recommendations address areas where the department can improve controls, accounting procedures, and compliance with federal and state laws and regulations. Other concerns deemed not to have a significant effect on the successful operation of department programs have been discussed with department management and are not included in this report.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The legislature created PHHS as a result of executive reorganization approved by the 1995 Legislature. Chapter 546, Laws of 1995, reorganized the state's health and human services agencies effective July 1, 1995. The bill consolidated all or portions of the Departments of Social and Rehabilitation Services, Family Services, Health and Environmental Sciences, and Corrections and Human Services into one agency. PHHS administers all programs previously administered by the Department of Social and

Introduction

Rehabilitation Services and, except for Juvenile Justice, all programs from the Department of Family Services. The Mental Health, Substance Abuse, Developmental Disabilities, and associated programs from the Department of Corrections and Human Services were incorporated into PHHS. In addition, PHHS received all of the health services programs from the Department of Health and Environmental Sciences.

Total expenditures by fund, as recorded for PHHS, are identified below for each of the two fiscal years ended June 30, 1998, and 1999.

Table 1
Total Expenditures by Fund
(in thousands)

	<u>FY 1997-98</u>	<u>FY 1998-99</u>
General Fund	\$212,962	\$223,220
State Special Revenue Fund	69,783	54,327
Federal Special Revenue Fund	513,058	546,967
Debt Service Fund	5,865	2,571
Agency Fund	<u>36,741</u>	<u>40,175</u>
Total	<u>\$838,409</u>	<u>\$867,260</u>

Source: Compiled by the Legislative Audit Division from PHHS accounting records.

Grants expenditures and Benefits and Claims expenditures account for 77 percent of the total expenditures for the two fiscal years ended June 30, 1999.

PHHS administers numerous assistance and services programs. As of June 30, 1999, the department is organized into nine divisions. A current organizational chart is on page 11 of this audit report. The following paragraphs briefly describe the responsibilities of each division within the department.

Director's Office

The director's office is responsible for providing the overall agency direction, policy development, and coordinating the various human services programs administered by the department. The director's office includes the offices of legal affairs, personnel resources, public information, and customer relations. The director's office administers the Telephone Devices for the Deaf program. The Board of Health and Human Services Appeals, the PHHS Statewide Advisory Council, the Native American Advisory Council, and the Montana Health Care Advisory Council are attached to the director's office.

Human and Community Services Division

The Human and Community Services Division administers a variety of programs to support families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The division is responsible for Montana's welfare reform project, "Families Achieving Independence in Montana" (FAIM).

The division administers the following services and programs to Montana families: child care, refugee assistance, FAIM, Medicaid eligibility determination, food stamps, low-income energy assistance, food and commodities distribution, and child and adult food programs.

FAIM provides payments to low-income families and children who meet income and resource eligibility standards. FAIM also provides employment-based support services. FAIM Day Care benefits provide child care to FAIM families that are in training or participating in a jobs program. FAIM receives funding through the federal Temporary Assistance to Needy Families program. The Child Care Block Grant assists low-income working parents with child care costs and support in locating quality care. The Food Stamp Job Search is a mandatory employment search activity for food stamp recipients. The Low-Income Energy Assistance Program (LIEAP) provides heating assistance to low-income people. The Weatherization Program funds installation of weatherization materials to reduce heating costs for low-income individuals. The Community Services Block Grant funds local projects to alleviate

Introduction

the causes of poverty. The Homeless Grant is passed through to shelters and Human Resource Development Councils to provide lodging for individuals and families who are without housing or at risk of being without shelter. The Food Stamp Outreach Program informs low-income people about food stamps. The Child Nutrition Grant provides nutritious meals to children enrolled in participating child care facilities through the Child Nutrition Program.

Child and Family Services Division

The Child and Family Services Division administers a variety of programs that help protect vulnerable children, youth, and adults who suffer from poverty, abuse, or neglect. The division works closely with communities and providers to enable families to become self-sufficient and increase their ability to nurture and provide for their children.

Child and Family Services staff use a balanced approach to keeping children safe and families strong. Prevention and family support programs provide families with the tools they need to become better parents and provide for their children, reducing the likelihood that child protective services will be needed. Social workers investigate reports of child abuse and/or neglect. Intervention and treatment services help families maintain children in their homes, thus reducing the number of foster care placements. While family reunification efforts are the division's primary focus, a back-up plan for permanency is developed to assure that the child has a lifelong family. Adoption and guardianship are two options that provide a child with a legal relationship to a permanent family.

The Child and Family Services Division administers the following services/programs to Montana families: child protection, family preservation and support, foster care, adoption, building skills for adulthood, and domestic violence prevention.

PHHS is designated by statute as the agency responsible for the protection of children who are abandoned, dependent, neglected, or abused. Family Preservation and Support Services include the Partnership to Strengthen Families Program, family group meetings, family-based services, and reunification services. The Partnership

program provides in-home preventive services for families to help strengthen and preserve the family unit. Family group meetings are facilitated meetings that bring together the extended family and encourage family members to help in protecting the child at risk. Family-based services are in-home services provided for families with children who are at imminent risk of removal due to abuse or neglect and also to aid in the reunification of a family when a child is returned to the home. Foster care benefits include family foster care, group homes, shelter care, and non-Medicaid residential treatment. Subsidized adoption promotes adoption of children with special needs. The Building Skills for Adulthood Program assists foster care children age 16 or older in making the transition from foster care to independent living. Domestic Violence Grants are passed through nonprofit organizations for safe homes, a 24-hour crisis line, and public awareness and education programs.

The Child Abuse and Neglect Grant supports contracts for education and information dissemination about physical and sexual abuse of children. The Children's Justice Act provides funds to improve the investigation, prosecution, and handling of sexual abuse cases in a manner that will limit further trauma to victims.

Child Support Enforcement Division

The Child Support Enforcement Division pursues and recovers financial support for children by establishing, enforcing, and increasing public awareness of parental obligations. The division provides federally mandated child support enforcement services, including location of noncustodial parents, paternity establishment, financial and medical support order establishment, enforcement of current and past due child support, medical and spousal support, collection and distribution of child support payments, and modification of child support orders. Child support enforcement services are provided to applicants regardless of income level.

Enforcement techniques available to the division include income withholding, support liens against real and personal property, seizure and sale of property, license suspension, tax and administrative offsets, administrative subpoenas, credit bureau

Introduction

reporting, administrative contempt, and the publication of delinquent child support obligors.

Health Policy and Services Division

The Health Policy and Services Division is responsible for the planning and implementation of statewide health policy with the intent to improve and protect the health of Montanans. The division administers the department's public health programs and the acute and primary care components of the Medicaid program.

The division administers several federal programs. These include the Medicaid program which provides health care for low-income Montanans; the Maternal and Child Health Services Block Grant which provides funding for services to women and children (e.g. the Women, Infants and Children program); and other federal block grants which provide funds for programs such as immunization, sexually transmitted diseases, communicable disease, chronic disease, and health promotion. The division also administers the public health laboratory.

The division administers several state programs. These include health assessment and resource development activities; Montana's emergency medical services system; training and support for sanitarians; inspection and licensing of food service, public accommodations, and related public facilities; and inspections, technical assistance, and public education on a range of environmental health issues including food and water safety, infectious disease prevention, and product safety.

Quality Assurance Division

The Quality Assurance Division is responsible for the design, implementation, and monitoring of the department's comprehensive quality assurance plan. The division uses comprehensive reviews and fiscal evaluations to evaluate the delivery of services. Specific functions performed by the division include fair hearings; program, contract, and grant financial audits; Surveillance and Utilizations Reviews for appropriate use of the Medicaid program; Third Party Liability recoveries; recovery of moneys resulting from abuse of the Medicaid and state welfare programs; certification of health care facilities; and inspection and issuance of health care facility licenses.

Operations and Technology Division

The Operations and Technology Division provides operational support services for the department. The division is responsible for developing, implementing, and monitoring fiscal, budgetary, and automation policy. The division also maintains the environmental laboratory and vital statistics functions.

The division directs the operation of the major computer systems for the agency. The Economic Assistance Management System (TEAMS) provides statewide on-line eligibility and benefit determination for the Food Stamps, FAIM, and Medicaid programs. The Montana Automated Child Care System (MACCS), an integrated component of TEAMS, automates eligibility determination, case maintenance, payment, and reporting of day care benefits for department child care programs. The System for Enforcement and Recovery of Child Support (SEARCHS) automates financial management of child support collections, absent parent location, paternity establishment, case management, order modification, and internal program management. The Child and Adult Protective Services (CAPS) system is an automated social services information system covering all major program areas of child protection, adult services, and juvenile corrections, as well as client and non-client based contracts. The Montana Medicaid Management Information System (MMIS) is a provider claims processing and information retrieval system which is operated and maintained under contract. The Agency Wide Accounting and Client System (AWACS) generates vendor and provider payments and provides client case management.

Disability Services Division

The Disability Services Division coordinates, develops, and implements comprehensive programs to assist Montanans with disabilities. The programs include assistance with activities of daily living, community based services, and coordinated programs of habilitation, rehabilitation, and independent living.

The division provides, or contracts for, a wide variety of services including: institutional care, residential services, home-based services to families, case management, and employment outcome services such as counseling and career training. Institutional care is

Introduction

provided at the Eastmont Human Services Center (EHSC) in Glendive and the Montana Developmental Center (MDC) in Boulder. Employment outcome services are provided through the Vocational Rehabilitation and Developmental Disabilities programs. The division also has responsibility for medical adjudication of Social Security Disability and Supplemental Security Income claims.

The Developmental Disabilities Planning and Advisory Council is administratively attached to the division.

Senior and Long-Term Care Division

The Senior and Long-Term Care Division plans and coordinates the delivery of publicly funded long-term care and support services to elderly Montanans and Montanans with physical and other disabilities.

The Office on Aging manages senior citizen programs under the federal Older Americans Act, provides public education on long-term care issues, and assists individuals in long-term care planning.

The State Veterans' Homes provide skilled nursing and other ancillary services to Montana's elderly veterans at the Montana Veterans' Home in Columbia Falls and the Eastern Montana Veterans' Home in Glendive. The Columbia Falls facility is operated by division personnel while the division contracts with a private provider for the services at the Glendive facility.

The Medicaid Community Services Program provides personal care, skilled nursing, home health, and hospice services to elderly and disabled persons eligible for Medicaid. The Medicaid Nursing Facility Services Program provides short- and long-term nursing care for Medicaid-eligible individuals.

The State Supplemental Payments Program supplements the Social Security Supplemental Income (SSI) payments to eligible individuals residing in designated residential care facilities.

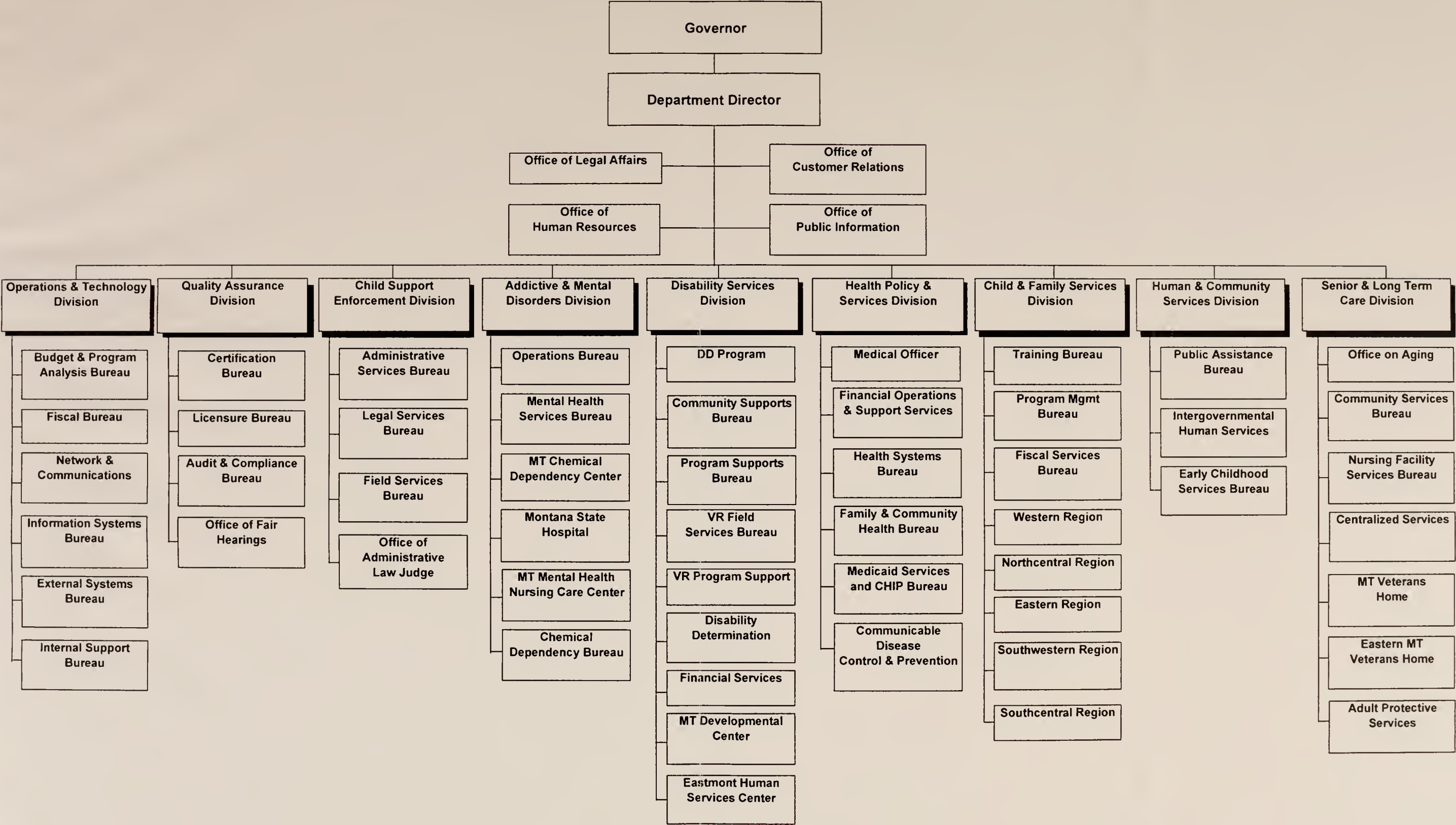
The division's Adult Protective Services Program develops policies and service programs for protecting the elderly from abuse and neglect.

Addictive and Mental Disorders Division

The Addictive and Mental Disorders Division provides prevention, treatment, and rehabilitation services for people with chemical dependency and mental illness. The Montana State Hospital (MSH) at Warm Springs provides inpatient psychiatric hospital care to patients with serious mental illnesses. The Montana Chemical Dependency Center (MCDC) in Butte provides inpatient drug and alcohol treatment. The Montana Mental Health Nursing Care Center (MMHNCC) in Lewistown provides nursing home services to Montanans whose mental illnesses prevent them from being placed in private nursing homes or other community alternatives. Chemical dependency programs receive funds from the division to provide a full range of community-based treatment and prevention services.

Federal financial assistance programs such as Medicaid, the Substance Abuse Prevention and Treatment Block Grant, the Mental Health Block Grant, and the Project for Assistance in Transition from Homelessness (PATH) grant for the homeless mentally ill are used by the division to provide services to eligible clientele. During the two fiscal years ended June 30, 1999, the division managed the Mental Health Access Plan, a managed care system for publicly funded mental health services.

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES
Organizational Chart by Bureau
August 31, 1999



Prior Audit Recommendations

Prior Audit Recommendations

We determined the status of the 24 prior audit recommendations directed to the department. The department implemented 12, partially implemented 7, and did not implement 5. The following paragraphs discuss recommendations which have not yet been fully implemented.

Recommendations Not Implemented

We recommended the department comply with constitutional and statutory requirements by disbursing funds only under appropriations made by law. This recommendation resulted from the department's use of advance and prepaid expense accounts, rather than expenditure accounts, to generate vendor and provider payments, thus initially bypassing appropriation controls and violating Article VIII, Section 14, of the Montana Constitution and statutory law. This section of the constitution states that no money is to be paid out of the state treasury, except for interest on public debt, unless upon an appropriation made by law. Section 2-15-1002, MCA, and Title 17, MCA, also provide for disbursements from the treasury only upon appropriations made by law. During the current audit period, the department continued to use the advance and prepaid expense accounts, processing \$222,271,733 of payments during fiscal year 1997-98 and \$219,724,260 during fiscal year 1998-99. As discussed in the prior audit report, these payments were subjected to appropriation controls after disbursement from the treasury. Department management indicated that, as of July 1, 1999, the department no longer routinely uses the advance and prepaid accounts for processing payments. Implementation of the state's new accounting system on July 1, 1999, resulted in the department's generating vendor and provider payments using expenditure accounts. These payment processes will be subject to review during the next regularly scheduled audit, and we make no further recommendation at this time.

As part of the recommendation discussed above, we also recommended the department record its operating plan on the accounting records as required by state law (section 17-7-138, MCA). Not all operating plan amendments were recorded on the

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accounting records by either June 30, 1998, or June 30, 1999. According to department personnel, individuals in the various divisions did not process last-minute operating plan changes. Department personnel stated the state's new accounting system includes features which will require operating plans and subsequent amendments be recorded for transactions to process. The department's compliance with the statute referenced above will be subject to review during the next audit, and we make no further recommendation at this time.

The department has not implemented our recommendation to "implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations." Action taken by the department with respect to this recommendation was primarily limited to correcting the majority of the accounting errors discussed in the report section leading to this recommendation. We observed in the prior audit report that correcting these errors would not prevent similar errors from occurring in the future.

Many of the current audit findings stem from a weakness in one or more control structure elements which are discussed on page 17. We continue to recommend the department implement a financial management control structure appropriate to the size and complexity of its organization.

Other recommendations not implemented pertain to reconciliation between the department's subsidiary foster care system and its primary accounting system (page 44); liquidation of the department's foster care trust account investment (page 62); compliance with the federal Cash Management Improvement Act (page 30); and reporting theft, actual or suspected, in accordance with state law (page 61).

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Recommendations Partially Implemented

Recommendations partially implemented by the department include:

- ▶ segregation of duties with respect to cash collections (page 55);
- ▶ reconciliation between two of the department's subsidiary systems used by the Child Support Enforcement Division (page 42);
- ▶ completion of accurate Schedules of Expenditures of Federal Awards (page 40);
- ▶ subrecipient monitoring of federal awards (page 36);
- ▶ compliance with federal regulations pertaining to quality assurance (pages 19, 36, and 39);
- ▶ correction of accounting records and subsequent submission of revised federal reports for the Temporary Assistance to Needy Families program necessary because of programming errors (page 38); and
- ▶ generation of accurate and consistent summary reports for the Women, Infants, and Children (WIC) program. Action taken by personnel responsible for administering the WIC program in response to this recommendation was to ensure the programming used to calculate redeemed food instruments, as reported on the coupon resolution report, produced accurate results. Because the department intends to completely redesign the WIC system within the next two years and personnel have maintained documentation demonstrating the net differences between the coupon resolution report and the posting summary report are less than one percent, we make no further recommendation at this time.

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Internal Control Structure

The National Commission on Fraudulent Financial Reporting (the Treadway Commission) was created in 1985 by the joint sponsorship of five organizations which composed the Committee of Sponsoring Organizations (COSO):

- ▶ The American Institute of Certified Public Accountants
- ▶ The American Accounting Association
- ▶ The Institute of Internal Auditors
- ▶ The Institute of Management Accountants (formerly the National Association of Accountants)
- ▶ The Financial Executives Institute

In 1987, the Treadway Commission recommended COSO develop a common definition of internal control and provide guidance to assist management to better control its organization. COSO issued a document titled *Internal Control - An Integrated Framework*. The definition of internal control includes five elements:

1. *Control environment* sets the tone of an organization. It includes management's commitment to integrity and competency, placing the right people in the right jobs. Assignment of authority and responsibility provide assurance all personnel understand the organization's objectives, and how they contribute to those objectives.
2. *Risk assessment* provides a basis for identifying risks to achieving objectives and determining how to manage them. Risk factors include changes in the operating environment, systems, personnel or personal situations, and organizational restructures.
3. *Control activities* are those policies and procedures which ensure management directives are carried out. Control activities pertain to information processing. They include physical controls to safeguard assets and segregation of duties to reduce the opportunities for an individual to perpetrate and conceal errors or fraud.

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4. *Information and communication* relate to the methods and records used to record, process, summarize and report an organization's transactions. The quality of the information directly impacts management's ability to make appropriate decisions. Communication provides an understanding of individual roles and responsibilities and how they relate to the work of others. Communication includes policy and accounting manuals, memoranda, oral discussion, and management actions.
5. *Monitoring* is assessing the quality of a control structure over time. It requires timely response to changing factors which affect the design and operation of controls. Regular management and supervisory activities can provide an on-going monitoring process. An internal audit function in an organization provides a separate evaluation of the design and operation of controls. External sources, e.g. clients, also provide feedback on an organization's control structure.

This audit report discusses issues related to fiscal and legal accountability within the department. The department could have prevented, or detected in a timely manner, many of these errors if it developed and implemented a sound internal control structure as we recommended in the prior audit report.

Management has not implemented a control structure conducive to prevention, or timely detection and correction, of errors in its financial records and failure to comply with program requirements. The quantity and complexity of federal regulations directed at the department also require an efficient and effective control structure to provide assurance the department and its clientele do not misuse federal assistance programs. (See issues discussed on pages 19 through 41.) The department's responses to recommendations made in the prior audit report indicated management was aware of its responsibilities in this area. The department, in its response, stated certain organizational changes were to be made within the Operation and Technology Division's Fiscal Bureau to more evenly distribute workload. In addition, the department intended to request internal control reviews be done by staff from the Quality Assurance Division, document policies and procedures, provide training to staff, and address cash receipting. Department management further

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intended these projects to be done in conjunction with implementation of the state's new accounting system. According to department management, these projects have been hampered by continuing turnover within the Fiscal Bureau; chronic absences; inadequate supervision due to supervisory positions being vacant throughout most of the audit period; the 1999 Legislative Session; and unforeseen resource demands for implementing the state's new accounting system.

As of July 1, 1999, the Fiscal Bureau had received internal control questionnaires for accounts payable, payments, and cash receipting functions and had revised the cash receipting procedures to be followed by the department's various divisions.

We provide suggestions to address the individual issues discussed in this report. As noted in the prior audit report, correcting the identified errors will not, in and of itself, implement the recommendations. The department must also design and implement an adequate control structure.

Recommendation #1

We recommend the department implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

Federal Compliance Issues

The department receives financial assistance from several federal agencies to operate numerous assistance and services programs. The primary federal agencies include the U.S. Departments of Agriculture, Education, Energy, and Health & Human Services. The department spent nearly \$523 million of federal assistance during fiscal year 1998-99. We performed tests to evaluate the department's controls and compliance with selected federal regulations. We identified several areas where the department could improve procedures to comply with federal laws and regulations. These are discussed below. The affected federal programs are

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identified by name and Catalog of Federal Domestic Assistance (CFDA) number, a federal identifier. We questioned the allowability of \$2,696,194 of federal expenditures for the two years ended June 30, 1999.

Medicaid - Indian Health Services

The department administers the Medical Assistance Program (Medicaid) (CFDA #93.778). Under the state plan, the department responsibilities include the review, approval, and processing of Medicaid claims submitted by the Indian Health Service agencies. We tested a sample of claims submitted by the Indian Health Services and noted the following instances of noncompliance with federal requirements.

Processing Controls

One individual in our sample was eligible for medical coverage by a third party. The claim was approved and paid by the department. No reimbursement was requested from the third party. Federal regulations require the states have a system to identify medical services that are the legal obligation of third parties. Third party resources should be exhausted prior to paying claims with Medicaid funds.

Five claims for out-patient services had a letter attached from the Indian Health Service agency noting the agency had detected duplicate billings for a total of \$50,648 and requesting the department to correct the situation by reducing the amount of payment on subsequent claims. The department had approved the duplicate billings for payment because personnel were unaware the claims had already been paid. Federal requirements provide the state must establish procedures to prevent duplicate payments.

Department personnel stated they paid invoices submitted by the Indian Health Service agencies without any verification of submitted claims during the period of July 1, 1997, through December 31, 1997. The Indian Health Service claims were processed outside of the regular department control system for Medicaid claims. Department personnel stated during this period there was no system to detect or track third party liability cases for Indian Health Service claims. Personnel stated they relied on the Indian Health Service

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agencies to detect and notify the department of any duplicate billings or payments. The control system in place over Indian Health Service claims from July 1, 1997, through December 31, 1997, was inadequate to ensure compliance with federal requirements. Therefore, we question \$1,444,136 of expenditures charged to Medicaid.

During the remainder of the audit period, the department worked to implement a control structure for Indian Health Service claims. Department personnel explained that after December 1997, they began verification procedures for Indian Health Service claims. In January 1998 the department notified the federal Health Care Financing Administration (HCFA) it was considering modification of its Medicaid Management Information System (MMIS) to include processing of Indian Health Service claims. In October 1998 the consulting firm which manages MMIS for the department notified the department of proposed enhancements to MMIS. The enhancements were completed and, according to department personnel, Indian Health Service claims processing was included in MMIS processing effective February 1, 1999.

We commend the department's efforts to implement a control system for Indian Health Service claims. However, the department should perform verification procedures to ensure claims paid during the period July 1, 1997, through December 31, 1997, were allowable under federal regulations.

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Recommendation #2

We recommend the department:

- A. **Verify and document the allowability of Indian Health Service claims processed between July 1, 1997, and December 31, 1997, in accordance with federal regulations.**
- B. **Refund the amounts paid for unallowable or undocumented Indian Health Service claims to the Medical Assistance Program.**

Contract Terms

During our audit of Medicaid claims for Indian Health Services, we noted the department was negotiating a contract with an Indian Health Services provider to provide medical services and supplies for Medicaid eligible individuals. The term of the contract was from October 1, 1997, through June 30, 1999. However, the contract was delayed and not approved by the department until March 1999. The contractor did not agree to the contract until April 1999. In June 1999, the department submitted an amendment to the contractor to extend the term of the contract through June 30, 2000. The amendment also updated billing rates and specifically addressed prescription drug refills and vaccines. The wording of the contract amendment specified that prescription drug refills, administration of vaccine for child immunizations or other services provided on or after October 1, 1997, would be eligible for reimbursement under the contract.

Due to delays in approving the contract, the Indian Health Service agency had not, as of June 30, 1999, submitted any claims for services provided between October 1, 1997, and June 30, 1999. As noted above, the contract provides for reimbursement of any services on or after October 1997. However, this contract provision does not comply with federal regulations. Federal regulations require submission of all claims no later than 12 months from date of service. Any claims submitted for services provided between October 1, 1997, through June 30, 1998, are unallowable costs to

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Medicaid because of the 12-month limitation for submission of claims in the federal regulations.

Recommendation #3

We recommend the department:

- A. Modify the contract with the Indian Health Service agency to clarify each claim must be submitted within 12 months of its date of service.**
- B. Ensure any claims submitted for services provided by the contractor prior to July 1998 are not reimbursed with federal funds.**

Federal Reporting

Reporting requirements in one form or another are a general requirement of almost every federal program at the department. Virtually every federal agency, in the individual program regulations, establishes guidelines and prescribed formats for the department to follow in reporting the financial activity and the results or accomplishments for the various programs. As part of our audit we tested to determine whether the department was in compliance with the applicable reporting requirements. We noted several instances where the department was not in compliance with federal reporting requirements for the following programs:

<u>Program Name</u>	<u>CFDA#</u>
Child Support Enforcement	93.563
Temporary Assistance for Needy Families	93.558
Vocational Rehabilitation	84.126
Aging Services - Title III	93.044 & 93.045
Maternal and Child Health Services Block Grant	93.994
Substance Abuse Prevention and Treatment	93.959
Social Services Block Grant	93.667

One of the primary federal requirements for reporting financial activity is that the amounts reported to the federal government must be supported by or reconciled to the primary accounting records.

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As discussed on pages 42-46, we noted weaknesses with the department's reconciliation procedures. The concerns with reporting errors we discuss in this section are related to, and are partially the result of, the reconciliation weaknesses.

Child Support Enforcement

The amounts reported on the quarterly Child Support Enforcement reports (OCSE 396A) are not reconciled to the primary accounting records. The amounts on the OCSE 396A reports are used to determine and support cash draws as reported on the Federal Cash Transaction Report (SF-272). Errors on the OCSE 396A reports result in errors in the cash draw calculations. We discuss noncompliance with federal cash management requirements and related problems in the cash management report section on page 30. We reviewed the OCSE 396A reports for the quarters ended December 1997 and June 1998. We noted the following differences between the quarterly report amounts and the primary accounting records for the federal share of expenditures.

<u>Reported / Recorded</u>	<u>December 1997</u>	<u>June 1998</u>
OCSE 396A Report	\$2,041,594	\$2,303,060
Accounting Records	<u>1,819,364</u>	<u>2,490,902</u>
Difference	<u>\$ 222,230</u>	<u>\$(187,842)</u>

These differences occur because personnel prepare the quarterly reports using a spreadsheet which is based on total expenditures rather than on the allocation of state and federal expenditures as recorded in the accounting records. Proper documented reconciliations between federal reports and the accounting records and more reliance on the primary accounting records should provide for detection and correction of errors of this nature.

We noted a formula error in the supporting spreadsheet for the OCSE 396A report for the quarter ended June 1999. The formula error resulted in a \$13,136 error on the quarterly report. We also noted a transposition error which resulted in a \$90 error. According to department personnel, these two errors were corrected in the September 1999 report. Increased care in preparing the

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reports and/or supervisory review should reduce errors of this nature.

TANF

In our audit work for the Temporary Assistance for Needy Families (TANF) program we noted three instances of incorrect amounts reported on ACF-196 Financial Reports submitted to the federal government. The amounts reported to the federal government did not agree to the primary accounting records.

Two instances occurred on the March 1999 ACF-196 Financial Report. The reported federal expenditures for “cash and work based assistance” were understated by \$462,821 and the state expenditures for this item were overstated by \$464,406. According to department personnel, the federal report was prepared as though expenditures had been moved from the federal funding source to the state funding source to address maintenance of effort concerns. Final maintenance of effort decisions were not made until September 1999 and accounting records were adjusted at that time. Therefore, as of June 30, 1999, the department overstated its Federal Special Revenue Fund and understated its General Fund expenditures by these amounts.

The ACF-196 report for the quarter ended June 1999 reported \$5,657,699 of “Transferred to CCDF Discretionary”--Federal Awards & Transfers. Of this amount, \$3.5 million did not occur until August 11, 1999, after the quarter ended. The correct amount, as of June 1999, was \$2,157,669. The federal report for the June 1999 quarter was not prepared until August 13, 1999. According to department personnel, this report reflects the department’s intent as of June 30, 1999, to transfer the funds. The department should have recorded accounting transactions to reflect this intent.

Procedures for documenting reconciliations of the reported amounts to the primary accounting records and for supervisory review should detect these types of errors before reports are submitted.

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Vocational Rehabilitation

We noted errors or lack of supporting documentation in Vocational Rehabilitation reports submitted to the federal government. The 1998 RSA-2 costs claimed are overstated by \$12,039. Costs are understated on the federal fiscal year 1998 SF-269 report for the quarter ended March 1999 by a net \$3,711. The net understatement is the result of two errors. Costs in one section of the supporting documentation are understated by \$50,895 and in another section are overstated by \$47,184. The applicable state and federal shares of the net understatement consist of \$2,920 federal and \$791 state. Total costs are understated by \$83,393 on the federal fiscal year 1999 FSR-269 report for the quarter ended March 1999. This consists of an understatement of federal and state shares of \$65,630 and \$17,763 respectively.

The individual responsible for completing these FSR-269 reports was in a training position at that time and should have been more closely supervised. The department could enhance the accuracy of the reported information if personnel had additional training to understand the relationship between the accounting records and the report preparation and if supervisory reviews included verification that federal reports agree or are reconciled to the primary accounting records.

Aging Services - Title III

The Federal Cash Transaction Report - PMS-272 for the quarter ended March 1999 is overstated by a total of \$600,000 for programs within the Aging Services program. The primary accounting records reflect the actual expenditures for the "99 Age Supp" program and for the "99 Congr" program were each \$300,000 less than the amounts reported to the federal government. Department personnel stated the department had \$600,000 of excess federal cash on hand as of March 31, 1999, for these two programs. Personnel anticipated spending the excess cash shortly after March 1999 and reported this money as expended to avoid reflecting it as excess cash on the PMS-272 report. Reporting in this manner is misleading and could have been avoided with better cash management practices. We discuss the department's need to improve cash management on page 30.

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We also noted a \$900 error on the March 1999 Financial Status Report. Department personnel had noted the \$900 difference between the primary accounting records and the supporting report information but overlooked making the adjustment when submitting the federal report.

Maternal and Child Health (MCH) Services Block Grant

The federal reports for the MCH Services Block Grant are not supported by the primary accounting records. We noted the amounts are unsupported, unreconciled and inconsistent between years. The department uses spreadsheets and the AWACS system to determine the amounts to include on the expenditure reports. However, the supporting documentation is inconsistent with the reported amounts and some amounts could not be tied back to the spreadsheets.

The department disburses funds to Montana counties to provide program services. The AWACS system records and tracks the amounts the department pays to the counties. The amount of total county expenditures is not treated or reported consistently between award years. According to department personnel, changes in federal reporting requirements went into effect for federal award year 1998. For federal award year 1997, the department reported only the amount of county expenditures from the AWACS system necessary to meet the required match amount for the grant. The calculation was done in total, no allocation or documentation was done at the individual county level. In federal award year 1998, the department reported total county payments from the AWACS system.

We requested department personnel provide the supporting documentation for the 1998 award year expenditure report. Department personnel were unable to locate the original supporting documentation and attempted, but were unable, to recreate the support. The amounts did not agree to the federal reports in all cases as illustrated below.

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Table 2
Maternal and Child Health Services Block Grant
Comparison of Expenditures Reported to the Federal
Government to Supporting Documentation
1998 Award Year

<u>Program Component</u>	<u>Amount Reported</u>	<u>Support Spreadsheet</u>
Health Stats	\$ 24,746	\$ 24,746
FCH Bureau Admin	399,055	399,047
Women's Health	35,394	35,394
CAC	121,474	121,131
Special Health Services	823,296	865,433
Contracts to Counties	857,236	823,279
School & Dental	<u>53,067</u>	<u>53,067</u>
TOTAL	<u>\$2,314,268</u>	<u>\$2,322,097</u>

Source: Compiled by Legislative Audit Division from department records.

The department should implement consistent procedures to reconcile and agree reported amounts to the primary accounting records.

Level of Effort

Federal regulations frequently mandate recipients of federal awards maintain a specified level of effort for a specific program from period to period. The specific requirements are unique to each program and are found in the applicable federal program laws and regulations. We tested compliance with applicable level of effort requirements and our testing disclosed the following concerns regarding department procedures.

Department personnel stated they purposefully reported fewer expenditures for the Substance Abuse Prevention and Treatment Block Grant (SAPT) level of effort than those actually incurred. Personnel reported only the amount they considered necessary because of past experience with other block grants and a precedent established by individuals previously responsible for this program. Personnel stated they had not read the current regulations.

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Federal regulations governing SAPT state, in part, the department “. . . shall for each fiscal year maintain aggregate state expenditures by the principal agency for authorized activities at a level that is not less than the average of such expenditures . . . for the two year period preceding the fiscal year for which the state is applying for the grant. The Block Grant shall not be used to supplant state funding of alcohol and other drug prevention and treatment programs.” Personnel stated they were unaware of this specific regulation. Not only has the department misrepresented its state commitment to these programs, the practice of underreporting level of effort could mask a declining state commitment which could then result in the department’s use of federal funds to supplant state funds.

The department should report the aggregate state expenditure for level of effort for the SAPT program.

We noted a similar situation in the MCH Services Block Grant. The department underreported its level of effort for the 1997 grant by \$244,576 and underreported the 1998 grant level of effort by \$531,350. The amount reported was less than total expenditures incurred, but sufficient to meet the required level of effort. In addition, department documentation does not agree to the primary accounting records. When questioned how they determined the amounts to be reported, department personnel were unable to recompute or document the amounts.

Social Services Block Grant

The post expenditures report for the Social Services Block Grant for fiscal year 1996-97 was not submitted within the federally established time frames. The federal report for the state fiscal year-ended June 30, 1997, was not submitted until March 1998. Federal regulations (45 CFR 96.17) require the annual report be submitted (1) within six months of the end of the period covered by the report or (2) at the time the state submits its application for funding for the fiscal year which begins subsequent to the expiration of that six-month period. Department personnel stated staff turnover and other priorities may have delayed the report submission. They stated the former employee who prepared the report thought there

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was more flexibility regarding the timing requirements for submitting the report.

Summary

The concerns noted above indicate the department needs to implement procedures to enhance compliance with federal reporting requirements. The number of federal programs where our audit detected noncompliance with the various reporting requirements indicates a systemic compliance control weakness. The department should take steps to ensure federal reports are supported by the primary accounting records. This should include redesign or implementation of reconciliation procedures between the primary accounting records, the various systems used by the department, and supporting spreadsheets used by department personnel. The department should provide additional training for personnel to understand the federal reporting requirements, the relationships between department records and systems and the extent of documentation required for federal reporting. The department should also enhance supervisory review procedures to ensure compliance with department policies.

Recommendation #4

We recommend the department develop and implement procedures to improve compliance with federal program reporting requirements.

Cash Management

The Cash Management Improvement Act (CMIA) of 1990 required the U.S. Treasury to enter into agreements with states to establish cash management procedures for certain federal programs. Ten of the department's federal programs were included in the state's CMIA agreement during fiscal years 1997-98 and 1998-99.

Under the terms of the CMIA agreement, the department must draw funds for each program based on a warrant clearance pattern established by the state Department of Administration. The clearance pattern is an estimate of the time required for warrants to clear the bank. Drawing funds in accordance with the established

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clearance pattern provides assurance federal cash is properly managed. Federal regulations and the CMIA agreement include provisions for revising CMIA agreements when actual clearance patterns change. Specifically, "If a State has actual or constructive knowledge, at any time, that a clearance pattern does not correspond to a program's clearance activity, or if a program undergoes operational changes that may affect clearance activity, the State shall: (i) Immediately notify the FMS in writing of the program requiring a new clearance pattern, and (ii) Develop a new clearance pattern and certify that it corresponds to a program's clearance activity."

For federal programs not subject to CMIA, federal regulations require the department to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of these funds. Cash should be drawn to meet immediate cash needs or to cover program disbursements already incurred.

We reviewed the department's procedures for managing cash in its federal programs. The department acknowledged cash management issues related to six of these programs and we identified issues relating to the other four programs. The following paragraphs summarize the cash management issues.

Cash draws for several programs, including the Substance Abuse Prevention and Treatment (SAPT) (CFDA #93.959) program, are not done until cash balances are negative. The amount of cash drawn is calculated based on cash balances without considering any outstanding inter-entity loan or advance amounts. The department is unlikely to be able to repay loans or advances unless personnel consider these balances in calculating cash draw amounts. At June 30, 1999, the SAPT program had an approved inter-entity loan of \$1,000,000 and expenditures for the year ended June 30, 1999, were approximately \$4.6 million.

The Child Care Development Fund (CFDA #93.596) replaced the Child Care Development Block Grant (CFDA #93.575) in October 1998. At the time of the program conversion, \$600,000 was moved

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from the old account to the new account, with an additional \$375,000 being left in the old account where it remained for approximately six months.

Cash draws for the Title IV-E Foster Care (CFDA #93.658) program were generally made one day earlier than specified by the CMIA agreement during the audit period. Drawing cash too soon can result in the state owing interest to the federal government.

Cash draws for the Women, Infants, and Children (WIC) (CFDA #10.557), Child Support Enforcement (CSE) (CFDA #93.563), and Social Services Block Grant (SSBG) (CFDA #93.667) programs were not done in accordance with the CMIA agreement. Personnel drew cash for SSBG based on an analysis of the cash balance in the account in relation to expenditures incurred, rather than on the expenditure activity as outlined in the CMIA agreement. Personnel drew cash for CSE based on analysis of cash outlays and program income; the CMIA for this program considers only the cash outlays made during the previous week. Personnel drew cash for WIC one to two days after the time specified in the CMIA.

Cash draws for the Temporary Assistance for Needy Families (CFDA #93.558) program violated the CMIA 13 times during fiscal year 1997-98. The department drew 1/26 of its annual administration allotment every two weeks rather than drawing 1/6 of the quarterly administrative allowance as specified in the CMIA. The amounts drawn for administrative costs exceeded costs recorded in the accounting records because the department's allocation of overhead costs was processed less frequently than biweekly.

At June 30, 1999, the department had a total of \$16,595,100 of inter-entity loans and a total of \$4,420,000 of advances (long-term loans). Inter-entity loans and advances indicate the department uses state funds to cover disbursements for some federal programs until it receives reimbursement from the federal government. Section 17-2-108, MCA, requires state agencies to use non-General Fund money first to the extent possible. From June 30, 1997, to June 30,

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1999, the department's inter-entity loan balances increased by \$4,499,210. Of this amount, \$3,879,460 is attributed to federal programs. The department's advances increased by \$1,928,100 and federal programs accounted for \$1,867,000 of this increase. The department should manage its federal programs to minimize the use of state funds.

In August 1998 the department obtained a \$1,000,000 inter-entity loan to pay for Substance Abuse Prevention and Treatment (SAPT) Block Grant (CFDA #93.959) expenditures because the federal government had not yet approved the state's SAPT plan. The department submitted its federal fiscal year 1998 plan on March 31, 1998, the deadline imposed by the federal government. The department received the "Notice of Block Grant Award" in September 1998 and was then allowed to draw federal funds. Department personnel indicated the department intended to repay the loan with SAPT Block Grant funds when the state plan was approved. As of June 30, 1999, this loan remained outstanding. Earlier submission of the SAPT state plan would have mitigated the need for an inter-entity loan.

The department's use of inter-entity loans and advances and lack of consideration of those balances in subsequent cash draws can result in lost interest to the state. When personnel do not follow the CMIA for cash draws, the department is also at increased risk for interest payments to the federal government.

Personnel responsible for making cash draws during the audit period did not receive appropriate supervision. Although individuals were assigned supervisory responsibilities, this was in addition to their other duties, and two new supervisory positions within the fiscal bureau, intended to address recommendations made in the prior audit, were unfilled throughout the audit period. Some draws were not in compliance with CMIA because of a misunderstanding as to what constituted the issuance date on a warrant. Personnel who considered other resources available (e.g. program income) did so to avoid building cash balances in the federal accounts; this appears

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reasonable, but violates the CMIA. The department should review its cash management procedures and request revisions to CMIA as needed. The revisions should address changing clearance patterns, availability of program income and the need to minimize the use of state moneys to finance federal programs. The department should direct personnel to draw funds in accordance with the CMIA agreement.

Recommendation #5

We recommend the department:

- A. Draw funds in accordance with federal and state regulations.**
- B. Implement procedures to minimize the use of inter-entity loans and advances.**
- C. Monitor the results of CMIA and request modification to the agreement when necessary.**
- D. Provide adequate training and supervision to staff responsible for making cash draws.**

Incorrect Matching Rates

Many of the department's federal assistance programs require the state to provide matching funds so program costs are shared between the state and federal government. During our audit we noted instances where the department did not comply with the applicable matching requirements for the Medical Assistance Program (CFDA #93.778). This resulted in unallowable costs as discussed below.

Medical Assistance Program (Medicaid)

The department is required to pay part of the Medicaid costs. Different rates apply to the various program components and the rates can change from one federal fiscal year to the next. The department imbeds the Federal Medical Assistance Percentage (FMAP) rates in the accounting system as a control procedure to ensure expenditures are properly allocated between state and federal sources. The FMAP rates are set by the Health Care Financing Authority and are effective each October 1, the beginning of the federal fiscal year. The state fiscal year begins on July 1 and therefore, includes portions of two federal fiscal years. With the different Medicaid components and multiple federal fiscal periods there could be as many as 1,350 different cost centers in the accounting system. Each center's coding has an imbedded FMAP rate.

We tested 38 of these cost centers and found 18 in which expenditures were allocated at the wrong FMAP rate. The centers were established in the accounting system July 1, 1998, using the federal fiscal year 1999 FMAP rate which was not effective until October 1, 1998. This resulted in expenditures for July, August, and September 1998 being allocated at the 1999 FMAP rate rather than the 1998 FMAP rate. The 1999 rate was slightly higher than the 1998 rate (71.73% vs. 70.56%) and, therefore, the federal share of program costs is overstated by \$289,889. We question \$289,889 of Medicaid costs processed during July, August, and September 1998.

Department personnel stated these cost centers were initially established in the accounting system with the incorrect FMAP rates. They stated the rates were subsequently corrected in the accounting system; however, the department did not correct the expenditures already allocated at the incorrect rates. The accounting system does not automatically adjust balances for subsequent changes in the allocation rates.

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Recommendation #6

We recommend the department:

- A. Review the Medical Assistance Program cost centers to ensure the accounting system applies the correct FMAP rates.
- B. Adjust the accounting records to reflect the use of the proper FMAP rates for the Medical Assistance Program cost centers during fiscal year 1998-99 and refund the necessary amounts to the Medical Assistance Program.

Monitoring State and Federal Funds Provided to Subrecipients

The department subgrants some state and federal funds to other entities. Federal regulations require the department monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The department is also required to review the results of audits of subrecipients to determine whether prompt and appropriate corrective action has been taken with respect to audit findings. During our audit we noted concerns related to the department's monitoring of state and federal funds provided to subrecipients of the Maternal and Child Health Services Block Grant (CFDA #93.994), the Women, Infants, and Children (CFDA #10.557) and the Social Services Block Grant (CFDA #93.667) programs.

Maternal and Child Health Services Block Grant Local Government Audits

The Montana Department of Commerce Local Government Services Bureau ensures local governments receive required audits. Bureau personnel review audit reports completed by private audit firms for documentation indicating the local government is in compliance with state and federal laws and regulations. Bureau personnel notify state agencies of instances of noncompliance. The state agencies can use this information to determine if those issues require additional follow up. We noted Bureau personnel sent a letter to the department regarding a compliance issue related to a \$2,315 overpayment to a county from the Maternal and Child Health

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Services Block Grant. We were unable to determine whether anyone in the department followed up on the compliance issue or requested return of the money. The letter was addressed to the Family and Community Health Bureau, but personnel in the bureau do not remember receiving the letter.

Women Infants and Children (WIC) Program

The department does not report the results of local WIC office inspections in a timely manner as required by its state plan and federal regulations. Because federal regulations do not define “timely,” the state defines it in the state plan. Once the federal government has approved the plan, the state’s definition of “timely” has the force of federal regulation. The state plan for the WIC program requires department managers to formally report the results of the inspection to the local office within 30 days. A local office has 30 days to respond to the inspection report with a corrective action plan. Federal regulations require the department to maintain an on-going management evaluation system to include the development of corrective action plans and monitoring the implementation of the plan.

We noted several instances where WIC inspections were not reported to local offices within the required 30 day time period. For example, the department conducted two inspection visits in May 1999. However, no formal reports were prepared or issued as of October 1999. Department personnel indicated inspection reports are sometimes delayed due to other responsibilities taking precedence.

Social Services Block Grant (SSBG)

Department personnel are not monitoring SSBG subrecipient audits in accordance with federal regulations. As required by federal regulation, the department mandates private nonprofit organizations obtain an audit when they receive \$300,000 or more in federal awards annually. Department personnel who monitor the audits and review compliance concerns did not notice, however, that one nonprofit organization subject to the audit requirement has not submitted an audit report since 1994. When we asked about this provider, personnel learned audits were not performed because the organization did not have all of its financial information “pulled

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together” for audit. The department continues to contract with the organization. Because the nonprofit organization is not in compliance with federal audit requirements, the amounts disbursed to the organization are unallowable and therefore we question \$455,779 and \$462,615 of charges to the SSBG program for fiscal years 1997-98 and 1998-99, respectively.

Recommendation #7

We recommend the department:

- A. Monitor subrecipients of federal awards as required by federal regulations.**
- B. Refund \$918,394 to the federal Social Services Block Grant program.**

Aid to Families with Dependent Children Program (AFDC)

In the prior audit we noted an error related to the expenditure activity in the Temporary Assistance to Needy Families (TANF) (CFDA #93.558) and Aid to Families with Dependent Children (AFDC) (CFDA #93.560) programs. We identified a programming error within the TEAMS computer system which charged certain AFDC activity to the TANF program. Federal regulations require the department to maintain an accounting system which accumulates and accurately summarizes accounting transactions for the purpose of financial reporting. Department personnel later determined that there was a net overcharge of \$43,775 to AFDC in fiscal year 1996-97, and the TANF program was undercharged by the same amount. Even though the department calculated the error and corrected its system programming, we could find no documentation the department repaid AFDC. We question the \$43,775 charged to the AFDC program.

Recommendation #8

We recommend the department repay \$43,775 to the Aid to Families with Dependent Children program.

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Automated Data Processing and System Security

Federal regulations (45 CFR part 95, subpart F) require the department establish procedures for review and analysis of data processing and system security issues for systems used to administer Medicaid (CFDA #93.778), TANF (CFDA #93.558), Child Support Enforcement (CFDA #93.563) and Title IV-E Foster Care (CFDA #93.658). These regulations include directives regarding risk analyses to ensure both new and existing systems include appropriate cost-effective controls. The department is required to perform risk analyses whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to address evaluation of physical and data security operating procedures, and personnel practices. The department is to maintain reports on the biennial reviews, together with pertinent supporting documentation, for U.S. Department of Health and Human Services onsite reviews.

The automated data processing systems which impact the above programs are TEAMS, SEARCHS, CAPS, AWACS, SBAS/SABHRS (the state's accounting system), and MMIS. Department management was unaware of this requirement and therefore, has not established the required system of review and risk analysis. Although the department is engaged in certain activities which could be used as a starting point for the required review, the department should develop a review plan and document the results of the review in accordance with federal regulations.

Recommendation #9

We recommend the department comply with the requirement of 45 CFR part 95, subpart F, and implement a comprehensive risk analysis and system security review plan.

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Schedule of Expenditures of Federal Awards

Department fiscal personnel prepare a Schedule of Expenditures of Federal Awards (SEFA) each fiscal year. The schedule reports expenditures of federal funds listed by CFDA number. The Governor's Office compiles agency SEFA information into a single SEFA for the state of Montana. We audit and express an opinion on the state of Montana SEFA in our biennial Single Audit report.

Federal regulations require the recipients of federal assistance to accurately report the expenditures for each assistance program by CFDA number. The report must be supported by the accounting records.

During the past four audits of the department and the former Department of Social and Rehabilitation Services, we identified errors and omissions on the schedules of federal financial assistance. During the current audit, we identified similar errors on the SEFAs submitted to the Governor's Office. The following paragraphs describe the errors.

We verified all of the information reported on the fiscal year 1997-98 SEFA. We noted five federal programs that should have been included, but were not. The program expenditure amounts excluded ranged from \$10,424 to \$3,280,486 with a total SEFA understatement of \$4,014,756. In addition, 22 federal programs had incorrect expenditure amounts. The errors ranged from \$1,196 to \$3,578,098 with a net SEFA overstatement of \$1,738,217. Although we noted errors on the fiscal year 1998-99 schedule, there was significant improvement in the accuracy of amounts reported. The fiscal year 1998-99 schedule incorrectly reported four CFDA numbers, one federal grantor agency, and one research and development designation. One of the CFDA numbers was overstated and another understated by \$52,873,805. Both CFDA numbers related to the Food Stamps program.

The errors we noted for fiscal year 1997-98 could have been detected and prevented by adequate supervisory review procedures and by reconciling federal reports to the accounting records. The

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department should continue its efforts to ensure the accuracy and completeness of its SEFAs.

Recommendation #10

We recommend the department continue to improve review procedures to ensure an accurate and complete Schedule of Expenditures of Federal Awards is submitted to the Governor's Office.

Shipping Controls

The department participates in federal Food Commodities programs (CFDA #10.567, #10.569, and #10.570). Department personnel in the food distribution warehouse do not always ensure shipments of food commodities are controlled as required by department policy. To reduce the risk of theft during shipment, the department requires that both the shipping invoice and the load checklist and receipt document be signed by warehouse personnel when commodities are drawn from inventory; by the driver when received by truck driver; and by the recipient's representative at the final destination. These signatures are necessary to track the change in custody as the food commodities move from the warehouse to the recipients. We reviewed the shipping invoices and the load checklist and receipt documents for all shipments during May 1998 and January 1999. During these two months there were 19 shipments of food for these commodity programs. We noted three invoices and one load checklist and receipt document that were not signed by the driver or warehouse personnel as required by department policy.

Recommendation #11

We recommend the department ensure food commodity shipments are controlled as required by department policy.

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System Reconciliations

We reviewed the department's procedures for reconciling its subsystems to its primary accounting records. The following four report sections discuss issues we identified.

Unreconciled Child Support Payments

The Child Support Enforcement Division (CSED) does not properly reconcile computer systems it uses to account for approximately \$40,000,000 of child support receipts and disbursements. CSED personnel use three computer systems, SEARCHS, VIPRS, and the statewide accounting system to account for the collection, payment, and/or transfer of funds related to the Child Support Enforcement program. Personnel use the SEARCHS and VIPRS computer systems to monitor and process child support payments and collections through the statewide accounting system. The three systems should be reconciled to ensure accountability and the adequacy of fund assets to cover child support payments due to custodial parents. This is the third consecutive audit report which has addressed concerns related to the adequacy of the child support reconciliation process.

When CSED remits more money to a custodial parent than it should (e.g. an obligated parent does not send the full amount of the support payment to CSED, but CSED remits the full amount to the custodial parent), personnel then establish a receivable in the Child Support agency fund and attempt to collect the money from the custodial parent. Collection efforts are not always successful and some receivables become uncollectible. At the end of fiscal year 1998-99, CSED personnel wrote off more than \$132,000 of accounts receivable as uncollectible in the Child Support agency fund. In the same transaction, personnel reduced the liability for property held in trust by the same amount. Reducing property held in trust was inappropriate as the division was still responsible for distributing that amount of cash to the rightful owners. Appropriate reconciliation procedures for the three systems should have identified this error.

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Recommendation #12

We recommend the department implement procedures to ensure the Child Support Enforcement Division computer systems properly reconcile to the statewide accounting system and to each other.

Unreconciled AWACS Transactions

Department personnel use the Agency Wide Accounting and Client System (AWACS) to generate vendor and provider payments. Department personnel told us they reconciled AWACS to the accounting system. We reviewed department procedures for reconciling AWACS and the accounting system and determined those procedures need improvement. We reviewed two months' reconciliations from fiscal year 1997-98 and three months' reconciliations from fiscal year 1998-99. We determined personnel did not reconcile AWACS to the primary accounting system.

We identified 38 unreconciled AWACS transactions which totaled \$176,552. These transactions either did not process, had different amounts, or were coded differently than the related accounting system transactions. Personnel were unable to explain why these transactions did not process directly from AWACS to the accounting system. The department's financial records may be misstated and thus misleading to users and federal reports could be misstated. To ensure accurate financial records, the department should implement procedures to completely reconcile AWACS transactions to the accounting system. In addition, supervisory personnel should review the reconciliations for accuracy and completeness and document their review.

Recommendation #13

We recommend the department:

- A. Implement procedures to reconcile AWACS transactions to the primary accounting system.**
- B. Complete reconciliations for fiscal years 1997-98 and 1998-99 and process necessary correcting transactions.**

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Unreconciled Foster Care Trust Accounts

Children eligible to receive Title IV-E Foster Care (CFDA #93.658) frequently receive other forms of assistance or support. These receipts are remitted to the department and department personnel deposit them in the state treasury, maintaining accountability through the use of an agency fund within the accounting system and a module within CAPS. These moneys are used to help pay for the costs of care related to these children. Each child has a separate account within the CAPS trust account module. Personnel stated they reconcile the total of those accounts to the primary accounting records to ensure proper accountability for funds held in trust.

We reviewed the reconciliation procedures in use by the department during the audit period. At the time of our inquiries, August 1999, personnel stated that although they had completed trust account reconciliations for fiscal year 1997-98, they had not done any reconciliations for fiscal year 1998-99 because they did not have time. Personnel were unable to provide documentation of the fiscal year 1997-98 reconciliations.

We obtained a fiscal year 1998-99 CAPS report which should have been used by personnel to complete trust account reconciliations. We compared the total on this report to the balance in the Agency Fund on the accounting records. The CAPS report total was \$254,177 and the accounting records total was \$160,506. We reviewed transactions posted to the accounting records and identified two which account for \$78,714 of the \$93,670 difference. One transaction was for \$20,323 and moved funds from the Agency Fund to the Special Revenue Fund foster care account in January 1998. Personnel responsible for updating the individual foster care trust accounts on CAPS could not provide documentation to verify whether those accounts were ever adjusted for that transaction. The other transaction was in the amount of \$58,391 and was a deposit that had been recorded in the General Fund rather than the Agency Fund account on the accounting records.

Timely reconciliations, properly performed and documented, would have identified these errors and reduced the risk of the department being deficient in its fiduciary duty to the foster care children. The

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department should complete the reconciliations for fiscal year 1998-99 to ensure the individual foster care trust account balances are proper and the appropriate accountability for the property held in trust is reflected in the primary accounting records.

Recommendation #14

We recommend the department implement policies and procedures which will ensure timely completion and resolution of reconciliations between foster care trust accounts and the accounting records.

Other System Reconciliations

We identified reconciliation issues related to two other systems used by the department. These systems are Child and Adult Protective Services (CAPS), and the Montana Medicaid Management Information System (MMIS).

CAPS

The department has not reconciled its CAPS system to its primary accounting records. Fiscal Bureau personnel were primarily responsible for this reconciliation during the audit period. Fiscal Bureau personnel indicated fiscal year 1997-98 had been reconciled but were unable to provide documentation of their work. They were also unable to provide documentation for fiscal year 1998-99 reconciliations which were said to have been done through October 1998. Failure to locate the reconciliation documentation has been attributed to a move from one office to another. Personnel attributed failure to complete fiscal year 1998-99 reconciliations past October 1998 to implementation of the state's new accounting system.

Although Fiscal Bureau personnel had primary responsibility for the CAPS reconciliation, other department personnel performed some reconciliation procedures. We reviewed a reconciliation performed by an individual outside of the Fiscal Bureau and determined it was not complete. Third Party Contributions (e.g. parental support) are not included in the reconciliation. As of fiscal year-end 1997-98 the net unreconciled difference between CAPS and the accounting

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records was \$213,880 and by fiscal year-end 1998-99, the unreconciled net difference was \$70,179. According to department personnel, the differences between the accounting records and CAPS are due to the Montana Department of Corrections (Juvenile Justice) because the accounting system includes the Corrections information but the CAPS report does not. Personnel could not demonstrate this was the case.

MMIS

Department personnel stated they reconcile expenditure data provided through MMIS to the accounting records to ensure Medicaid expenditures are recorded according to date and type of service. The reconciliation procedures, however, do not accomplish this. Personnel reconcile MMIS reports to other MMIS reports. The procedures do not include verification by department personnel that the MMIS data is properly recorded in detail on the accounting records according to date and type of service. Proper recording is necessary to ensure the appropriate FMAP rates are applied to the transactions. The department is at greater risk of undetected errors in its recorded Medicaid expenditures because personnel do not reconcile MMIS to the primary accounting records.

Recommendation #15

We recommend the department:

- A. Implement procedures to reconcile its subsidiary systems to its primary accounting records.**
- B. Complete the reconciliations of CAPS and MMIS to the primary accounting records for fiscal years 1997-98 and 1998-99.**

Accounting Errors

The following four sections describe various errors and omissions in the department's accounting records. Errors and omissions do not necessarily mean the department misspent the funds for which it is responsible. State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The one exception to this is that the department is required to record certain encumbrances as expenditures and liabilities. These are commonly referred to as "A" accruals. The Department of Administration establishes state accounting policy to implement this law.

Agency Funds

As reported in the prior audit report, the department's Child Support Enforcement Division initially records all money received for child support payments as revenue and all disbursements as expenditures in the Agency Fund. This activity exceeded \$36 million in fiscal year 1997-98 and \$40 million in fiscal year 1998-99. Agency Funds are used to account for property held in trust and using revenue and expenditure accounts is inappropriate. The department should ensure its Agency Fund accounts do not report revenues and expenditures.

The department uses Agency Funds to account for residents' money at the Montana State Hospital, Montana Developmental Center, Eastmont Human Services Center, Montana Mental Health Nursing Care Center, and the Montana Veterans' Home. These moneys are held in approved non-treasury bank accounts. We reviewed the transactions processed by these locations to update the accounting records for changes in the amounts of property held in trust for fiscal years 1997-98 and 1998-99. Errors included posting net adjustments to the property held in trust accounts on the accounting records and adjusting the property held in trust account to agree to a bank statement balance rather than to the reconciled check register balance. Deductions to property held in trust were understated by \$624,346 in fiscal year 1997-98 and by \$583,092 in fiscal year 1998-99. Additions to property held in trust were understated by

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\$566,644 in fiscal year 1997-98 and by \$646,050 in fiscal year 1998-99.

Unrecorded Accounts Receivable

The department routinely receives money from several entities as a direct result of its participation in federal programs. These sources include:

- ▶ rebates from drug manufacturers due to the large volume of drugs paid for by the Medicaid program.
- ▶ reimbursements from private insurance companies and Medicare for medical services originally paid for by Medicaid but which are the responsibility of the other entities.
- ▶ rebates from baby formula manufacturers for the amount of formula purchased through the WIC program.

These entities owed money to the department at June 30, 1999. However, the department did not record accounts receivable at June 30, 1999, for Medicaid drug rebates, third party payments due to the department, and WIC rebates. We noted the department failed to record approximately \$8,550,000 of accounts receivable on the state's accounting records at June 30, 1999.

Department personnel indicated the financial activity related to drug rebates and third party payments are netted against the fiscal year-end Medicaid expenditure accrual amount on the department's financial records. Personnel working in the WIC program calculated the WIC rebates owed, but the Operations and Technology Division Fiscal Bureau did not process the required transactions.

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Improper Expenditure Abatements

The department improperly reduces or abates expenditures and increases its appropriation authority when it receives certain moneys. According to department personnel, the department's appropriations were established based on recording these items as expenditure abatements. State policy generally requires that revenue or a transfer-in transaction be recorded when an agency receives cash or other financial resources from outside parties. The policy allows the agencies to abate expenditures only for accounting errors and other limited instances where a transaction is nonrecurring and nonroutine in nature. The improper abatements were for Medicaid collections from third parties such as private insurance companies, responsible parties, lien and estate recoveries. Because these third party collections are an integral part of the Medicaid program, the department should have recorded the amounts collected as program income instead of expenditure abatements. The department improperly reduced expenditures on its accounting records by \$1,828,602 and \$2,392,310 in fiscal years 1997-98 and 1998-99, respectively. The department also understated revenue on its accounting records by the same amounts.

Subsidiary Detail Ledgers

Local governments participate in the department's public assistance programs. The department makes assistance payments and subsequently bills counties for their share of the payments. We reviewed the billing process and noted three subsidiary detail ledger (SDL) accounts related to amounts owed by local governments which have been on the accounting records since fiscal year-end 1996-97 and one which has been on the accounting records since fiscal year-end 1997-98. The amounts of the SDLs are \$(191,183); \$33,235; \$191,183; and \$6,797. The balances in these SDLs have remained unchanged since they were established and the descriptions attached to the accounts do not make it clear which local governments owe the department money. According to fiscal bureau personnel, these accounts are excluded from the department's reconciliation of amounts owed by individual local governments. This indicates the balances are in error. These SDLs appear to have been established to assist the department in balancing its Special Revenue Fund accounts, but were not established in the

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level of detail necessary to clearly identify each entity which owes the department money.

The department routinely used advance and prepaid expense accounts when processing vendor and provider payments during fiscal years 1997-98 and 1998-99. Advance accounts should be used when cash is advanced to entities external to the state for expenditure (e.g. advance funding a local government project). Prepaid expense accounts should be used for prepaying goods and services not yet received (e.g. rent and unexpired insurance premiums).

When the department uses advance and prepaid expense accounts, it must assign a subsidiary detail ledger identification number. The identifiers are intended to assist personnel in monitoring the subsequent resolution of the account balances. During our audit, we noted department personnel do not clear SDLs on a timely basis. This should be done at least annually. We identified advance and prepaid SDLs with erroneous balances. These balances were negative at June 30, 1999, and totaled (\$40,684) and (\$24,900), respectively. The negative balances are an indication the department has errors within its expenditure activity.

We also identified several advance and prepaid expense SDLs which have been on the accounting records in the same amounts for over one year. These balances, which are primarily in the General Fund, totaled \$1,402,954 and \$85,900, respectively. Balances which remain on the accounting records for an excessive period of time increase the risk the department has unrecorded expenditures. Moneys advanced or prepaid should be expended within a reasonable amount of time. As discussed on page 13, money is to be paid out of the state treasury only on appropriation made by law.

The department should establish procedures to ensure its subsidiary detail ledgers are accurate and reflect appropriate accountability for amounts advanced to vendors and providers, expenditures prepaid to vendors and providers and amounts due from counties.

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Department personnel have indicated that, with implementation of the state's new accounting system, they no longer use the advance and prepaid expense accounts to ensure provider and vendor payments are made on a timely basis. The department should review and resolve the remaining balances in its advances and prepaid expenses subsidiary detail ledgers.

Other Accounting Errors

The following paragraphs summarize additional accounting errors we identified during the audit.

- ▶ The department received a \$10,000,000 inter-entity loan at fiscal year-end 1997-98 and again at fiscal year-end 1998-99. Personnel distributed the loan proceeds to several Federal Special Revenue Fund accounting entities using accounts intended for use when a vendor-type relationship exists between two functions of state government. The distribution of cash from the inter-entity loans should have been recorded as inter-entity loans receivable and payable. Misclassified loans totaled \$5,106,685 at June 30, 1998, and \$8,216,561 at June 30, 1999.
- ▶ The department did not consistently classify expenditures on the state's accounting records for food commodity distributions to Indian reservations. In one responsibility center the department recorded the food distributions as general operating cost "food service expenditures" and in another center the same type of food distributions are classified as "benefits and claims" to entities outside state government. State policy requires that expenditures be recorded in a consistent manner using classifications which best describe the financial activity. We believe benefits and claims to entities outside of state government more clearly describes the food distributions to Indian reservations. The department's fiscal year 1998-99 operating expenditures are overstated by \$369,037 and benefit and claims expenditures are understated by the same amount.
- ▶ Administrative costs related to Medicaid eligibility determinations were recorded as benefit and claims expenditures rather than operating expenditures as required by state policy. Eligibility determination is an administrative function and costs associated with that function should be recorded as operating expenditures. Benefits and claims

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expenditures are overstated by \$24,285 and \$19,712 in fiscal years 1997-98 and 1998-99 respectively, and operating expenditures are understated by the same amounts.

- ▶ The department did not record all the financial activity necessary to properly accrue and defer revenue in the federal special revenue accounts by June 30, 1998, or by June 30, 1999, as required by state accounting policy. Accrual and deferral transactions are necessary in federal accounting entities to match revenue with the applicable expenditures each fiscal year. There were errors in 31 of 159 accounts reviewed ranging from under \$5 to over \$900,000. These errors impacted amounts due from the federal government, due to the federal government, deferred revenue, federal revenue, transfers-in, transfers-out, and amounts due to or due from other accounting entities.

Review of the department's general ledgers could have detected and prevented many of these errors. This concern was addressed in the prior audit report where 53 of 135 accounts were in error. Although there has been some improvement in the number of errors since the last audit, continued department effort is necessary to correct or prevent the errors. Department personnel indicated implementation of the state's new accounting system required a significant personnel commitment which reduced the resources available to reconcile the general ledger accounts.

- ▶ We noted the department overstated the "Bonds Payable" account and the "Amount to be Provided" account on the state's accounting records by \$610,000 at June 30, 1999. The error occurred when personnel attempted to correct another accounting error. Verification of the recorded Bond Payable to the applicable bond payment schedule would have identified the error and personnel could have taken appropriate steps to correct it.
- ▶ At fiscal year-end 1998-99, the department improperly recorded "prepaid expense" and "accounts payable" amounting to \$8,056,871. This error occurred when an employee did not ensure an expenditure transaction was recorded in the proper year. Rather than purging the transaction and processing it in fiscal year 1999-2000, department personnel erroneously reclassified it as a "prepaid expense."

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- ▶ The department abated foster care expenditures in the General and Federal Special Revenue Fund accounts and charged the expenditures to a State Special Revenue account. The department then improperly recognized revenue in the foster care State Special Revenue Fund account. As a result, charges for services revenues and accounts receivable are overstated by \$318,434.

The following table summarizes the accounting record misstatements discussed above.

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Table 3
Summary of Accounting Record Misstatements

<u>Issue</u>	<u>Fund(s) Affected</u>	<u>Account(s) Affected</u>	<u>Misstatements</u>	
			<u>Fiscal Year</u> <u>1997-98</u>	<u>Fiscal Year</u> <u>1998-99</u>
Agency Funds, Pg. 47.	Agency Fund	Miscellaneous Revenues	\$36,638,269	\$40,380,272
		Benefits Expenditures	\$36,741,407	\$40,174,954
		Additions to Property Held in Trust	\$566,644	\$646,050
		Reductions to Property Held in Trust	\$624,346	\$583,092
Unrecorded Accounts Receivable, Pg. 48.	General and Special Revenue	Accounts Receivable; Accrued Expenditures; Benefits Expenditures; and Miscellaneous Revenue		\$8,550,000
Improper Expenditure Abatements, Pg. 49.	General and Special Revenue	Benefits Expenditures and Federal Revenue	\$1,828,602	\$2,392,310
Subsidiary Detail Ledgers, Pg. 49.	General and Special Revenue	Accounts Receivable; Charges for Services Revenue; and Fund Balance	\$40,032	\$40,032
		Advances; Prepaid Expenses; and Benefits Expenditures		\$65,584
Other Accounting Errors, Pg. 51 through 53.	Special Revenue	Inter-entity Loans Receivable; Inter-entity Loans Payable	\$5,106,685	\$8,216,561
	Special Revenue	Operating Expenditures and Benefits Expenditures		\$369,037
	Special Revenue	Operating Expenditures and Benefits Expenditures	\$24,285	\$19,712
	General and Special Revenue	Due from Federal Government	\$918,659	\$257,121
		Due to Federal Government		\$618,013
		Deferred Revenue	\$257,981	\$780,439
		Federal Revenue	\$660,678	\$419,187
		Transfers-In	\$660,678	\$640,887
		Transfers-Out	\$660,678	\$640,887
		Due to Other Accounting Entities	\$1,176,640	\$640,887
		Due from Other Accounting Entities	\$1,176,640	\$640,887
	General Long-Term Debt Account Group	Bonds Payable and Amount to Be Provided	\$305,000	\$610,000
	General and Special Revenue	Prepaid Expenses and Accounts Payable		\$8,056,871
	Special Revenue	Accounts Receivable and Charges for Services Revenue		\$318,434

Source: Compiled by the Legislative Audit Division.

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Recommendation #16

We recommend the department:

- A. Implement procedures to properly record Agency Fund additions and deductions to property held in trust.**
- B. Implement procedures to identify and record accounts receivable.**
- C. Implement procedures to ensure it complies with state accounting policies concerning expenditure abatements.**
- D. Review its subsidiary detail ledgers and process any necessary corrections for amounts owed to the department by local governments, amounts advanced to vendors and providers, and amounts prepaid to vendors and providers.**
- E. Implement controls to ensure its subsidiary detail ledgers accurately reflect the details of accounts at the general ledger level.**
- F. Implement procedures to provide assurance accounting errors are either prevented or detected and corrected in a timely manner.**

Cash Collection

We reviewed the department's cash receipting and depositing procedures for receipts related to foster care trust accounts and third party liability recoveries against criteria set forth in state law and state policy. State law requires deposits to be made daily when total collections exceed \$500. At a minimum, all moneys received are to be deposited weekly. State policy suggests functional responsibilities of record keeping, authorization, operations and custodianship be separated. Separating these responsibilities provides reasonable assurance the procedures for collections and deposits are properly performed. State policy requires negotiable instruments be restrictively endorsed at the time of initial receipt and that collections be properly secured during both working and nonworking hours to reduce the likelihood of theft or loss.

Findings and Recommendations

Procedures for depositing foster care trust account receipts are overly complex and are not efficient. Currently, as many as six people are involved in the process. We believe the department can achieve adequate segregation of duties with four. The first person to receive the checks would restrictively endorse the checks, complete a check log and run a tape. The check log and checks would then go to the second person who would prepare the deposit. The tape would go to the third person who would review and approve the deposit against the tape. The fourth person would carry the deposit to the treasury unit.

Personnel working with the department's third party liability (TPL) function do not deposit moneys received as required by state law and policy. Personnel receiving checks through the mail do not secure them at all times. Personnel do not always carry the checks to the fiscal bureau for depositing; the checks are frequently sent to the fiscal bureau through inter-agency mail. For lien and estate recoveries, TPL has contracted with a firm in Boston to initiate actions needed to recover the funds and to follow through with the recoveries. These checks are first sent to a mailbox in Helena and then are forwarded to Boston. When the firm authorizes release of the checks, they are returned to TPL which then uses inter-agency mail to send the checks to the fiscal bureau for deposit. This process delays depositing the checks for approximately two weeks. Lien and estate recoveries totaled \$1,437,568 during fiscal year 1997-98 and \$1,189,560 during fiscal year 1998-99.

The delays in depositing the TPL receipts cause a loss of interest earnings to the state and increase the risk of loss or theft.

Recommendation #17

We recommend the department review its cash collection and deposit procedures, simplify procedures where warranted, and implement procedures to ensure timely deposits and safeguarding of assets for third party liability collections.

Payroll Distribution

We reviewed the department's payroll distribution procedures and identified areas where we believe the department can improve controls and increase efficiency.

The Operations and Technology Division's Fiscal Bureau is responsible for picking up the department's payroll warrants and advices and for distributing them to other locations. Two people in the Fiscal Bureau have responsibilities for picking up payroll information from State Payroll. One person picks up the payroll warrants and then gives them to a second person to distribute along with the payroll advices the second person picks up from State Payroll. For efficiency, the warrants and advices could be picked up from State Payroll at the same time by one person, as long as that person did not work in the Payroll section. The person who currently distributes the pay advices and warrants could pick up both warrants and advices and the department would still have adequate segregation of duties.

The person responsible for distributing the payroll advices and warrants completes a Warrant Accountability form. This form is used to demonstrate that the number of pay advices and warrants received equal the number distributed. However, the form has not been revised since July 1996 and there have been several changes in the state's payroll system subsequent to that date. Because the form is outdated, personnel must "force" it to work within current procedures. The Warrant Accountability form should be redesigned to facilitate the current process of distributing payroll advices and warrants. In addition, the Warrant Accountability form should demonstrate supervisory review to ensure the distribution was properly made.

The person responsible for distributing payroll advices and warrants to other locations sometimes gives them to individuals other than those authorized to receive them. Personnel responsible for payroll distribution should follow department policy which is to distribute payroll warrants and advices to authorized individuals.

Findings and Recommendations

Recommendation #18

We recommend the department review and revise its payroll distribution procedures to improve their efficiency and effectiveness.

Institutional Facilities

We visited several of the department's facilities and identified issues related to resident accounts and inventories. The following paragraphs summarize our observations and suggestions for improving controls.

Resident Accounts

During our visits to the Veterans' Home in Columbia Falls and the Montana State Hospital in Warm Springs, we noted control weaknesses in the handling of residents' money. To reduce the risk of theft and errors related to resident money held in a fiduciary capacity, the facilities have a responsibility under state policy to establish and maintain a system of controls over collection, deposit, record-keeping, approval of transactions, and disbursement of resident money.

At the Veterans' Home we noted one person is responsible for collections, disbursements, record keeping, and reconciling daily cash balances for the residents. State policy states a person should not be allowed to perform these incompatible accounting functions. Incompatible functions place an employee in a position to perpetrate and conceal theft or errors in the normal course of assigned duties. The Veterans' Home should reassign some of the accounting and reconciliation functions as outlined in the Montana Operations Manual section 2-1210.00, so that no one employee performs incompatible functions.

The Veterans' Home reconciles its resident accounting records to the bank account balances annually rather than monthly. As a result, Veterans' Home personnel have difficulties reconciling the account. More frequent reconciliations could help management find

Findings and Recommendations

and correct any errors in a timely manner and reduce the risk of material errors or thefts remaining undetected for up to a year.

The Veterans' Home does not periodically distribute individual account balance reports to its residents. Personnel should provide periodic account statements to residents indicating the deposits, disbursements, and beginning and ending balances. This procedure would allow residents, or the responsible representative, the opportunity to review and question, if necessary, the disposition of their money.

Resident account technicians at the Montana State Hospital do not balance the resident cash change drawer to receipts and disbursements on a daily basis. Personnel said cash is counted whenever they think it is necessary, usually not daily. Unless the cash drawer is balanced daily, hospital accounting personnel could find it more difficult to determine how and when shortages or overages in cash occurred. An accounting supervisor indicated the hospital reimbursed the resident account \$486 for unreconciled shortages noted in the prior audit. After we brought this concern to the attention of the accounting supervisor, she indicated they would begin to balance the cash drawer daily.

Inventory Control Weaknesses

The Montana State Hospital should have someone other than the warehouse supervisor perform the annual supply and food inventory count and reconciliation to the accounting system. The count is necessary to determine whether amounts of inventory on hand agree with the accounting records and to determine and investigate unusual shortages, if any. Having physical custody of supply and food inventories and also performing the count and reconciliation to the accounting records are incompatible functions. As noted above, incompatible functions place an employee in a position to perpetrate and conceal theft or errors in the normal course of assigned duties. The warehouse supervisor said she did the inventory count and reconciliation in July 1998 because no other hospital personnel were available.

Findings and Recommendations

Recommendation #19

We recommend the department work with the Veterans' Home and Montana State Hospital to:

- A. Reassign staff responsibilities to strengthen controls over resident accounts and warehouse inventories.
- B. Reconcile resident accounting records to bank accounts monthly.
- C. Periodically provide a statement of account to residents.
- D. Balance the resident account cash drawer to records of receipts and disbursements daily.

SEARCHS

We reviewed the department's System for Enforcement and Recovery of Child Support (SEARCHS), including table maintenance and algorithm priority lists. Department personnel use SEARCHS to monitor receipt of child support payments. The system uses table maintenance lists to calculate child support payments and priority lists to allocate child support payments received. An absent parent's child support payment first applies to current child support and second to current spousal support. Payment amounts in excess of the current support are applied to lower priorities, e.g. medical.

We identified two table maintenance errors. The Federal Income Tax Withholding (FWT) and Enforcement Fee (EFF) tables do not properly match federal/state regulations. Child support cases using the FWT table may charge the incorrect withholding tax percentage. The EFF table will charge enforcement fees, contrary to federal/state regulations, unless a date change is made on the table. As a result of the above errors, SEARCHS may calculate child support payments incorrectly.

We identified 13 priority errors on SEARCHS. These priorities are not set in accordance with federal/state regulations and do not follow the priority system explained above. As a result, SEARCHS

Findings and Recommendations

may allocate child support payments incorrectly. For example, two of the errors involved current spousal support. In these cases, the priority was set at "1" indicating support payments would go to spousal support first. However, spousal support should have a priority of "2," indicating it is the second recipient of support.

Department personnel did not adequately review the table maintenance and algorithm priority lists. Employee turnover within the Child Support Enforcement Division contributed to the inadequate review. The department should establish review procedures to ensure child support payments are calculated and allocated in accordance with state and federal regulations.

Recommendation #20

We recommend the department review SEARCHS table maintenance and priority lists to ensure they comply with state and federal regulations.

Reporting Theft

The department has not reported incidents of theft, or suspected theft, to the Attorney General and the Legislative Auditor in a timely manner as required by law.

State law requires that both the Attorney General and the Legislative Auditor be notified in writing by state agencies upon discovery of theft or suspected theft. The department reported two incidents of theft occurring during the audit period, one in April 1999 and one in July 1999. The department reported a third instance which occurred in August 1999. In all three instances, the department waited over three weeks before notifying the two offices as required by law.

Untimely reporting to the offices responsible for investigation and audit can adversely impact an audit or investigation, which in turn can promote an environment conducive to future thefts. Reasons given for the delays included lack of time and not knowing what procedures to follow or whom to contact.

Findings and Recommendations

Recommendation #21

We recommend the department report incidents of theft or suspected theft to the Attorney General and Legislative Auditor, upon discovery, as required by law.

Noncompliance with State Laws

The department has not complied with the following state law which requires it to develop an informational system.

The department has not designed or developed a database that includes data on health care resources and the cost and quality of health care services as required by section 50-4-502, MCA. Department personnel said the department requested funding for the database during the 1997 and 1999 legislative sessions, but did not receive it.

The department should assess the need for this law and seek legislative change if it is warranted. Until such time as this law is amended or repealed, the department should comply with the requirements.

Recommendation #22

We recommend the department develop a health care database as required by section 50-4-502, MCA.

Trust Account Investments

The department invests money from foster care trust accounts in the state's Short-Term Investment Pool (STIP) from which the department receives investment earnings monthly. During the prior audit, we reviewed the department's procedures to distribute these earnings to the individual trust accounts and determined they did not provide for an equitable distribution as the distribution was based on balances at each month-end and many of the accounts' balances were incorrect at month-end. The primary cause for this was untimely posting of charges for cost of care. The prior audit report contained a recommendation that the department "liquidate the

Findings and Recommendations

foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts.” The department did not concur with this recommendation and at June 30, 1999, the STIP investment balance was \$277,100 which was unchanged from June 30, 1997.

Untimely posting of charges for cost of care occurred during fiscal year 1998-99 as the position responsible for this work was vacant from July 1998 through February 1999. Again, distributions of investment earnings would have been done based on month-end balances which were incorrect.

The department should take action to eliminate the inherent inequities in its current method of distributing investment earnings. Elimination of the inequities will require the department to design, implement, and monitor an equitable investment income distribution strategy. Such a strategy would have to recognize those instances where a child entered the system early in the month, received payments and cost of care charges and was out of the system by month-end. Due to the commingling of the funds in the STIP balance, a portion of the monthly earnings would belong to those individuals. We continue to believe the cost of managing the investment income exceeds the benefits to be derived.

Recommendation #23

We recommend the department:

- A. Liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts; or**
- B. Implement an equitable investment income distribution strategy which will allow for equitable distributions of investment earnings to the individual trust accounts.**

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 1998, and 1999. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

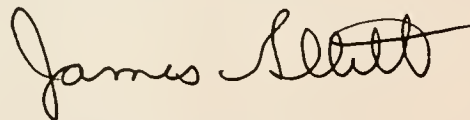
The department improperly recorded revenues and expenditures within an Agency Fund account during fiscal years 1997-98 and 1998-99. Consequently, Nonbudgeted Revenues and Transfers-In are overstated by \$36,624,518 and \$40,388,585, respectively, and Nonbudgeted Expenditures and Transfers-Out are overstated by \$36,742,610 and \$40,182,444, respectively, on the Schedules of Changes in Fund Balances and Property Held in Trust. Miscellaneous revenues are overstated by \$36,615,726 and \$40,380,556, respectively, in the Agency Fund on the Schedules of Total Revenues and Transfers-In. Benefits and Claims From Other Sources expenditures are overstated by \$36,741,407 and \$40,174,953, respectively, in the Child Support Enforcement program on the Schedules of Total Expenditures and Transfers-Out.

The department did not record all the financial activity necessary to properly accrue and defer revenue in the Special Revenue Fund at June 30, 1998, and 1999, and in the General Fund at June 30, 1999. Fiscal year 1997-98 Nonbudgeted Transfers-In and Nonbudgeted Transfers-Out were understated by \$660,678. Fiscal year 1997-98 Federal revenue and the June 30, 1998, Fund Balance were understated by \$660,678. Fiscal year 1998-99 Nonbudgeted Transfers-In in the General Fund were understated by \$386,297 as was the June 30, 1999, Fund Balance. Fiscal year 1998-99 Special Revenue Fund Nonbudgeted Transfers-In were understated by \$254,990; Nonbudgeted Transfers-Out were understated by \$640,888; and Federal revenues were understated by \$419,947. At June 30, 1999, assets were understated by \$511,711; liabilities were understated by \$478,462; and Fund Balance was understated by \$33,249.

The department improperly recorded recoveries of Medicaid expenditures from third parties as expenditure abatements during fiscal years 1997-98 and 1998-99. Consequently, on the Schedules of Total Revenues and Transfers-In, Miscellaneous revenues are understated by \$548,581 and \$717,693, respectively, in the General Fund and by \$1,280,021 and \$1,674,617, respectively, in the Special Revenue Fund. Benefits and Claims to Individuals expenditures are understated within the Child and Family Services Division, Health and Policy Services Division, Disability Services Division, Senior and Long-term Care Services Division, and Addictive and Mental Disorders Division programs in total by the same amounts.

In our opinion, except for the effects of the matters discussed in the three preceding paragraphs, the financial schedules referred to above present fairly the results of operations and changes in fund balances and property held in trust of the Department of Public Health and Human Services for the two fiscal years ended June 30, 1998, and 1999, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA
Deputy Legislative Auditor

October 13, 1999

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Debt Service Fund	Agency Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1998	\$ (11,728,262)	\$ 4,899,986	\$ 6,021,189	\$ 0	\$ 125
PROPERTY HELD IN TRUST: July 1, 1998				\$ 1,081,485	
ADDITIONS					
Budgeted Revenues & Transfers-In	11,445,705	503,886,451		(284)	
Nonbudgeted Revenues & Transfers-In	1,205,900	87,659,290	1,825,373	40,388,585	592
Prior Year Revenues & Transfers-In Adjustments	488,920	(1,880,496)	(584)	(7,491)	
Cash Transfers In (Out)	208,537,929	6,064,565			
Direct Entries to Fund Balance	3,758,914	4,809,831		(205,319)	
Additions to Property Held in Trust				43,352,425	
Total Additions	225,437,368	600,539,641	1,824,789	83,527,916	592
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	223,995,085	511,025,692			
Nonbudgeted Expenditures & Transfers-Out	19,812	88,158,357	2,357,429	40,182,443	
Prior Year Expenditures & Transfers-Out Adjustments	(795,156)	2,110,148	213,460	(7,491)	
Reductions to Property Held in Trust				43,531,750	
Total Reductions	223,219,741	601,294,197	2,570,889	83,706,702	0
FUND BALANCE: June 30, 1999	\$ (9,510,635)	\$ 4,145,430	\$ 5,275,089	\$ 539	\$ 717
PROPERTY HELD IN TRUST: June 30, 1999				\$ 902,160	

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Debt Service Fund	Agency Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1997	\$ (17,890,421)	\$ (4,211,301)	\$ 3,908,562	\$ (96)	\$ 0
PROPERTY HELD IN TRUST: July 1, 1997				\$ 1,300,282	
ADDITIONS					
Budgeted Revenues & Transfers-In	10,645,730	484,556,595	8,151,083	15,189	
Nonbudgeted Revenues & Transfers-In	1,009,220	101,340,428	1,483,448	36,624,518	125
Prior Year Revenues & Transfers-In Adjustments	(125,310)	(7,129,859)		(1,438)	
Cash Transfers In (Out)	204,980,479	7,223,053	(1,656,422)		
Direct Entries to Fund Balance	2,613,733	5,961,658		103,235	
Additions to Property Held in Trust				39,360,355	
Total Additions	219,123,852	591,951,875	7,978,109	76,101,859	125
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	219,077,313	499,522,754			
Nonbudgeted Expenditures & Transfers-Out	447,703	93,633,429	5,865,482	36,742,610	
Prior Year Expenditures & Transfers-Out Adjustments	(6,563,323)	(10,315,595)		(1,203)	
Reductions to Property Held in Trust				39,579,152	
Total Reductions	212,961,693	582,840,588	5,865,482	76,320,559	0
FUND BALANCE: June 30, 1998	\$ (11,728,262)	\$ 4,899,986	\$ 6,021,189	\$ 0	\$ 125
PROPERTY HELD IN TRUST: June 30, 1998				\$ 1,081,486	

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Debt Service Fund	Agency Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 221,345	\$ 584,534				\$ 805,879
Taxes		8,072,360				8,072,360
Charges for Services	12,128,916	33,692,947				45,821,863
Investment Earnings	4,308	144,235	\$ 834,090	\$ (284)		982,349
Fines and Forfeits	683					683
Sale of Documents, Merchandise and Property	1,174	171,062				172,236
Rentals, Leases and Royalties	41,589			538		42,127
Miscellaneous	772,647	485,275		40,380,556		41,638,478
Grants, Contracts, Donations and Abandonments		1,979,353			\$ 592	1,979,945
Other Financing Sources	(30,137)	34,135,736	990,699			35,096,298
Federal		510,399,743				510,399,743
Total Revenues & Transfers-In	13,140,525	589,665,245	1,824,789	40,380,810	592	645,011,961
Less: Nonbudgeted Revenues & Transfers-In	1,205,900	87,659,290	1,825,373	40,388,585	592	131,079,740
Prior Year Revenues & Transfers-In Adjustments	488,920	(1,880,496)	(584)	(7,491)		(1,399,651)
Actual Budgeted Revenues & Transfers-In	11,445,705	503,886,451	0	(284)	0	515,331,872
Estimated Revenues & Transfers-In	13,107,854	558,604,296	5,405	27,525		571,745,080
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,662,149)	\$ (54,717,845)	\$ (5,405)	\$ (27,809)	\$ 0	\$ (56,413,208)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (79,899)	\$ (302,674)				\$ (382,573)
Taxes		(427,640)				(427,640)
Charges for Services	(1,310,424)	(3,579,979)		\$ (25,025)		(4,915,428)
Investment Earnings		(451,842)		(2,784)		(454,626)
Fines and Forfeits	(125,917)	(15,000)				(140,917)
Sale of Documents, Merchandise and Property	(626)	(26,149)				(26,775)
Rentals, Leases and Royalties	(47,562)					(47,562)
Miscellaneous	(97,721)	252,020				154,299
Grants, Contracts, Donations and Abandonments		(1,840,967)				(1,840,967)
Other Financing Sources		(708,496)	\$ (5,405)			(713,901)
Federal		(47,617,118)				(47,617,118)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,662,149)	\$ (54,717,845)	\$ (5,405)	\$ (27,809)	\$ 0	\$ (56,413,208)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Debt Service Fund	Agency Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 217,467	\$ 500,164				\$ 717,631
Taxes		7,509,524				7,509,524
Charges for Services	10,646,215	34,296,900		\$ 17,072		44,960,187
Investment Earnings		152,500	\$ 605,401	(321)		757,580
Fines and Forfeits	1,395					1,395
Sale of Documents, Merchandise and Property	1,507	186,864		209		188,580
Rentals, Leases and Royalties	50,399			(209)		50,190
Miscellaneous	73,708	872,623		36,615,726		37,562,057
Grants, Contracts, Donations and Abandonments		1,106,744			\$ 125	1,106,869
Other Financing Sources	538,949	45,980,127	9,029,130			55,548,206
Federal		488,161,718		5,792		488,167,510
Total Revenues & Transfers-In	11,529,640	578,767,164	9,634,531	36,638,269	125	636,569,729
Less: Nonbudgeted Revenues & Transfers-In	1,009,220	101,340,428	1,483,448	36,624,518	125	140,457,739
Prior Year Revenues & Transfers-In Adjustments	(125,310)	(7,129,859)		(1,438)		(7,256,607)
Actual Budgeted Revenues & Transfers-In	10,645,730	484,556,595	8,151,083	15,189	0	503,368,597
Estimated Revenues & Transfers-In	14,371,456	487,571,709	540,500	50,000		502,533,665
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,725,726)	\$ (3,015,114)	\$ 7,610,583	\$ (34,811)	\$ 0	\$ 834,932
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (358,731)	\$ (429,667)				\$ (788,398)
Taxes		178,526				178,526
Charges for Services	(3,171,160)	980,768		\$ (9,811)		(2,200,203)
Investment Earnings		(54,836)		(25,000)		(79,836)
Fines and Forfeits	(73,605)	(15,000)				(88,605)
Sale of Documents, Merchandise and Property	(793)	11,833				11,040
Rentals, Leases and Royalties	(36,564)					(36,564)
Contributions and Premiums		(24,000)				(24,000)
Miscellaneous	(84,873)	817,373				732,500
Grants, Contracts, Donations and Abandonments		124,649				124,649
Other Financing Sources		2,858,011	\$ 7,610,583			10,468,594
Federal		(7,462,771)				(7,462,771)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,725,726)	\$ (3,015,114)	\$ 7,610,583	\$ (34,811)	\$ 0	\$ 834,932

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Human & Community Services Div	Child & Family Services Div	Director's Office	Child Support Enforcement	Health & Policy Services Div	Division Of Quality Assurance	Operations & Technology Division	Disability Services Division	Senior & Long-Term Care Svcs	Addictive & Mental Disorders	Indirect Cost Transfers (1)	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT												
Personal Services												
Salaries	\$ 12,284,325	\$ 10,308,196	\$ 1,034,294	\$ 4,883,717	\$ 4,604,526	\$ 3,200,820	\$ 3,771,987	\$ 16,000,173	\$ 3,059,820	\$ 16,345,719		\$ 75,493,577
Hourly Wages	(12)											(12)
Other Compensation								500				500
Employee Benefits	3,314,422	2,806,530	144,205	1,311,351	1,156,910	827,334	913,163	5,050,824	969,419	5,316,744		21,810,902
Total	15,598,735	13,114,726	1,178,499	6,195,068	5,761,436	4,028,154	4,685,150	21,051,497	4,029,239	21,662,463		97,304,967
Operating Expenses												
Other Services	3,555,183	1,098,243	966,069	1,381,267	10,661,768	714,184	17,421,422	2,366,201	869,462	4,466,325		43,500,124
Supplies & Materials	431,303	315,983	112,489	104,847	1,348,936	164,342	291,443	1,185,661	615,111	2,376,917		6,948,032
Communications	674,142	468,238	13,268	616,444	265,231	152,887	711,644	278,167	105,736	160,059		3,445,816
Travel	460,274	918,321	67,216	41,812	487,565	267,675	70,900	360,625	72,649	137,777		2,884,814
Rent	490,693	694,093	60,101	403,175	272,544	158,186	274,097	446,928	50,123	348,121		3,198,061
Utilities	28,794	21,429	1,222	5,978	1,545	6,036	9,103	304,288	111,757	770,230		1,260,382
Repair & Maintenance	108,034	52,002	11,547	51,953	47,455	29,167	83,897	159,638	130,759	256,293		930,745
Other Expenses	105,193	137,805	36,371	107,297	226,149	18,564	555,019	121,528	116,668	151,307		1,575,901
Goods Purchased For Resale								22,802	9,507	106,288		138,597
Total	5,853,616	3,706,114	1,268,283	2,712,773	13,311,193	1,511,041	19,417,525	5,246,838	2,081,772	8,773,317		63,882,472
Equipment & Intangible Assets												
Equipment	161,591	156,144	3,803	280,695	470,407	301,786	108,847	31,134	63,926	77,095		1,655,428
Intangible Assets					27,270			30,000				57,270
Total	161,591	156,144	3,803	280,695	497,677	301,786	108,847	61,134	63,926	77,095		1,712,698
Capital Outlay												
Buildings	919	1,282										2,201
Other Improvements	5,970	46					16,133					22,149
Total	6,889	1,328					16,133					24,350
Local Assistance												
From State Sources										1,776,293		1,776,293
From Federal Sources				4,684								4,684
From Other Income Sources				13,795								13,795
Total				18,479						1,776,293		1,794,772
Grants												
From State Sources		92,368			22,607			34,415	731,755	168,437		1,049,582
From Federal Sources	10,781,891	4,047,367			5,741,786				5,384,760	4,274,134		30,229,938
From Other Sources					456,735							456,735
Total	10,781,891	4,139,735			6,221,128			34,415	6,116,515	4,442,571		31,736,255
Benefits & Claims												
To Individuals	57,710,915	19,196,007		(12)	180,357,378		(737)	59,728,880	138,668,452	73,877,666		529,538,549
From Federal Sources	53,414,069	2,991			8,133,096							61,550,156
From Other Sources				40,161,243								40,161,243
Payments To Group Homes										368,311		368,311
Insurance Payments		577										577
Total	111,124,984	19,199,575		40,161,231	188,490,474		(737)	59,728,880	138,668,452	74,245,977		631,618,836
Transfers												
Accounting Entity Transfers	185,317							990,699	51,950	(34,299)	\$ 34,078,944	35,272,611
Total	185,317							990,699	51,950	(34,299)	\$ 34,078,944	35,272,611
Debt Service												
Bonds					1,266,127			1,304,761				2,570,888
Loans	3,739	18,140					(37,307)					(15,428)
Leases	15,877	1,889	6,932			10,724	533,514	36,496	2,700	(931)		607,201
Installment Purchases	32,702	442,324	11,435	3,012			162,758	14,846		83,080		750,157
Total	52,318	462,353	18,367	3,012	1,266,127	10,724	658,965	1,356,103	2,700	82,149		3,912,818
Total Program Expenditures & Transfers-Out	\$ 143,765,341	\$ 40,779,975	\$ 2,468,952	\$ 49,371,258	\$ 215,548,035	\$ 5,851,705	\$ 24,885,883	\$ 88,469,566	\$ 151,014,554	\$ 111,025,566	\$ 34,078,944	\$ 867,259,779
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 18,492,530	\$ 21,845,280	\$ 716,739		\$ 43,790,395	\$ 1,419,472	\$ 9,999,408	\$ 40,267,709	\$ 39,147,547	\$ 47,611,523	\$ (70,862)	\$ 223,219,741
Special Revenue Fund	125,272,811	18,934,695	1,752,213	\$ 9,196,306	170,491,512	4,432,233	14,886,475	46,897,096	111,867,007	63,414,043	34,149,806	601,294,197
Debt Service Fund					1,266,128			1,304,761				2,570,889
Agency Fund				40,174,952								40,174,952
Total Program Expenditures & Transfers-Out	143,765,341	40,779,975	2,468,952	49,371,258	215,548,035	5,851,705	24,885,883	88,469,566	151,014,554	111,025,566	34,078,944	867,259,779
Less Nonbudgeted Expenditures & Transfers-Out	54,049,985	210,395		40,182,444	1,350,702		(25,769)	1,091,651	53,656	426	33,804,551	130,718,041
Prior Year Expenditures & Transfers-Out Adjustments		1,488,258	(34,027)	39,379	(636,052)		6,492	150,021	71,645	147,392	274,393	1,520,964
Actual Budgeted Expenditures & Transfers-Out	89,715,356	39,081,322	2,502,979	9,149,435	214,833,385	5,838,242	24,905,160	87,227,894	150,889,253	110,877,748	0	735,020,774
Budget Authority	105,855,308	39,931,505	2,682,148	10,100,585	227,134,588	6,200,269	26,030,916	88,374,364	162,083,566	118,470,309		786,863,558
Unspent Budget Authority	\$ 16,139,952	\$ 850,183	\$ 179,169	\$ 951,150	\$ 12,301,203	\$ 362,027	\$ 1,125,756	\$ 1,146,470	\$ 11,194,313	\$ 7,592,561	\$ 0	\$ 51,842,784
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 596,567	\$ 182,240	\$ 65,293	\$ 8,501	\$ 304,941	\$ 23,841	\$ 48,214	\$ 183,845	\$ 680,944	\$ 132,536		\$ 2,226,922
Special Revenue Fund	15,543,385	667,943	113,876	942,649	11,996,262	338,186	1,077,301	962,625	10,513,369	7,460,025		49,615,621
Debt Service Fund												0
Internal Service Fund							241					241
Agency Fund												0
Unspent Budget Authority	\$ 16,139,952	\$ 850,183	\$ 179,169	\$ 951,150	\$ 12,301,203	\$ 362,027	\$ 1,125,756	\$ 1,146,470	\$ 11,194,313	\$ 7,592,561	\$ 0	\$ 51,842,784

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.
(1) See note 7 on page A-18.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Child & Family Services Div	Director's Office	Child Support Enforcement	Health & Policy Services Div	Division Of Quality Assurance	Operations & Technology Division	Disability Services Division	Senior & Long-Term Care Svcs	Addictive & Mental Disorders	Indirect Cost Transfers (1)	Total
Personal Services											
Salaries	\$ 21,669,144	\$ 981,562	\$ 4,901,313	\$ 4,254,616	\$ 3,033,219	\$ 3,595,972	\$ 15,504,015	\$ 2,916,296	\$ 16,008,880		\$ 72,865,017
Hourly Wages							66				66
Other Compensation	2,250						3,200				5,450
Employee Benefits	5,765,198	208,382	1,295,208	1,058,914	798,756	846,069	4,889,351	946,191	5,261,683		21,069,752
Total	27,436,592	1,189,944	6,196,521	5,313,530	3,831,975	4,442,041	20,396,632	3,862,487	21,270,563		93,940,285
Operating Expenses											
Other Services	4,517,090	584,219	1,451,052	8,324,938	622,032	1,101,387	2,001,773	927,086	2,850,138		22,379,715
Supplies & Materials	723,963	87,419	132,965	1,033,169	185,376	299,148	1,056,575	541,825	2,187,788		6,248,228
Communications	971,519	6,192	669,729	214,160	96,022	660,164	294,062	96,958	141,190		3,149,996
Travel	1,392,304	64,945	62,586	402,472	251,798	76,418	321,225	86,218	118,880		2,776,846
Rent	1,150,125	57,915	418,589	247,743	146,060	211,413	415,233	47,575	356,673		3,051,326
Utilities	37,553	1,147		275	5,392	8,089	282,321	90,517	687,341		1,112,635
Repair & Maintenance	143,806	8,361	51,721	44,983	13,948	143,551	137,257	86,094	316,953		946,674
Other Expenses	143,839	27,105	132,901	110,795	14,271	686,732	82,075	120,948	182,667		1,501,333
Goods Purchased For Resale	33						20,458	14,431	122,756		157,678
Total	9,080,232	837,303	2,919,543	10,378,535	1,334,899	3,186,902	4,610,979	2,011,652	6,964,386		41,324,431
Equipment & Intangible Assets											
Equipment	429,389		23,460	141,593	6,472	233,538	122,443	98,985	150,651		1,206,531
Intangible Assets	(6)		2,500	118,000		(918)	3,010		158,260		280,846
Total	429,383		25,960	259,593	6,472	232,620	125,453	98,985	308,911		1,487,377
Capital Outlay											
Other Improvements						950					950
Total						950					950
Local Assistance											
From State Sources									1,950,002		1,950,002
From Federal Sources			3,299								3,299
From Other Income Sources			18,806								18,806
Total			22,105						1,950,002		1,972,107
Grants											
From State Sources	133,220			1,990			36,074	833,465	90,494		1,095,243
From Federal Sources	13,762,709			6,333,670				5,454,830	3,479,446		29,030,655
From Other Sources				419,310							419,310
Total	13,895,929			6,754,970			36,074	6,288,295	3,569,940		30,545,208
Benefits & Claims											
To Individuals	71,614,044		(1,004)	175,373,354			57,219,579	138,222,332	73,347,418		515,775,723
From Federal Sources	53,885,106			8,421,877							62,306,983
From Other Sources			36,722,602	(1,429)							36,721,173
Insurance Payments	915										915
Total	125,500,065		36,721,598	183,793,802			57,219,579	138,222,332	73,347,418		614,804,794
Transfers											
Accounting Entity Transfers	212,929					3,435	855,639	80,541	14,074,913	\$ 31,597,595	46,825,052
Total	212,929					3,435	855,639	80,541	14,074,913	31,597,595	46,825,052
Debt Service											
Bonds									651,196		651,196
Loans	69,321	1,555	342	4,360,506		43,654	13,226		762,472		5,251,076
Leases	34,023	3,153				400,448	40,950	2,700	64,361		545,635
Installment Purchases	43,226	2,780				91,252	879,666	(9,492)	53,627		1,061,059
Total	146,570	7,488	342	4,360,506		535,354	933,842	(6,792)	1,531,656		7,508,966
Total Program Expenditures & Transfers-Out	\$ 176,701,700	\$ 2,034,735	\$ 45,886,069	\$ 210,860,936	\$ 5,173,346	\$ 8,401,302	\$ 84,178,198	\$ 150,557,500	\$ 123,017,789	\$ 31,597,595	\$ 838,409,170
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND											
General Fund	\$ 38,247,821	\$ 650,148	\$ (26,539)	\$ 44,289,092	\$ 1,253,361	\$ 3,794,837	\$ 39,445,747	\$ 40,080,721	\$ 45,280,715	\$ (54,210)	\$ 212,961,693
Special Revenue Fund	138,453,879	1,384,587	9,171,201	162,212,135	3,919,985	4,606,465	43,854,404	110,476,779	77,109,348	31,651,805	582,840,588
Debt Service Fund				4,359,709			878,047		627,726		5,865,482
Agency Fund			36,741,407								36,741,407
Total Program Expenditures & Transfers-Out	176,701,700	2,034,735	45,886,069	210,860,936	5,173,346	8,401,302	84,178,198	150,557,500	123,017,789	31,597,595	838,409,170
Less Nonbudgeted Expenditures & Transfers-Out	55,039,410		36,742,610	4,390,049		184,156	880,157	62,601	6,230,561	33,159,678	136,689,222
Prior Year Expenditures & Transfers-Out Adjustments	(930,142)	10,250	(102,996)	678,057	43,925	(16,054,908)	(203,624)	933,969	307,434	(1,562,083)	(16,880,118)
Actual Budgeted Expenditures & Transfers-Out	122,592,432	2,024,485	9,246,455	205,792,830	5,129,421	24,272,054	83,501,665	149,560,930	116,479,794	0	718,600,066
Budget Authority	140,948,351	2,238,844	9,721,732	217,172,855	5,247,329	26,260,500	86,012,967	158,986,412	119,655,962		766,244,952
Unspent Budget Authority	\$ 18,355,919	\$ 214,359	\$ 475,277	\$ 11,380,025	\$ 117,908	\$ 1,988,446	\$ 2,511,302	\$ 9,425,482	\$ 3,176,168	\$ 0	\$ 47,644,886
UNSPENT BUDGET AUTHORITY BY FUND											
General Fund	\$ 644,916	\$ 47,904	\$ 8,500	\$ 772,140	\$ 38,843	\$ 352,242	\$ 501,495	\$ 1,338,125	\$ 154,245		\$ 3,858,410
Special Revenue Fund	17,711,003	166,455	466,777	10,607,885	79,065	1,636,204	2,009,807	8,087,357	3,021,923		43,786,476
Debt Service Fund											0
Agency Fund											0
Unspent Budget Authority	\$ 18,355,919	\$ 214,359	\$ 475,277	\$ 11,380,025	\$ 117,908	\$ 1,988,446	\$ 2,511,302	\$ 9,425,482	\$ 3,176,168	\$ 0	\$ 47,644,886

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.
(1) See note 7 on page A-18.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1999

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Debt Service, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave.

State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Notes to the Financial Schedules

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment. Consequently, these schedules do not agree in all cases to final SBAS summary reports. These differences are explained in note 6.

Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of the activity recorded in the department's Special Revenue Funds include federal grants such as Medicaid; Temporary Assistance to Needy Families; Low-Income Energy Assistance Program; Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children; Child and Adult Care Food; Prevention and Treatment of Substance Abuse; Social Services Block Grant; and the Child Care Development Fund Grant. State programs include the Public Health Laboratory, Earmarked Alcohol Tax for the treatment of alcoholism, and Third Party Liability recoveries. The Special Revenue Funds also account for activity at the Eastmont Human Services Center, the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital.

Debt Service Fund - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses these funds to account for the Montana State Hospital and Montana Developmental Center bond payments.

Notes to the Financial Schedules

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include Agency, Expendable Trust and Nonexpendable Trust Funds. The department uses an Agency Fund to account for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds include moneys belonging to foster care children, residents of care facilities and damage deposits for department housing. The department uses the Expendable Trust Fund to account for abandoned property. The Nonexpendable Trust Fund is an account called Endowment for Children. As of June 30, 1999, the balance in this account is \$717.

2. General Fund Balance

The negative fund balances in the General Fund do not indicate overspent appropriation authority. The department does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. The department records cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund fund balances for each of the fiscal years ended June 30, 1998, and June 30, 1999.

3. Direct Entries to Fund Balance

State accounting policy limits the use of the fund balance accounts because using them bypasses revenue and expenditure accounts. The extent of direct entries to fund balance is not readily discernible from review of summary accounting records. Direct entries to fund balances are used primarily for correcting errors of prior years and reserving fund balance for assets such as inventories and long-term receivables.

The department recorded \$8,678,626 of net direct entries to fund balance during fiscal year 1997-98. Of this amount, \$7,861,825 is the result of clearing fiscal year 1995-96 Medicaid accruals. The remainder is attributable to miscellaneous corrections, recording June 30, 1998, inventory balances, and recording adjustments to property held in trust in the Agency Fund.

Notes to the Financial Schedules

The department recorded \$8,363,428 of net direct entries to fund balance during fiscal year 1998-99. The department cleared fiscal year 1996-97 Medicaid accruals in the amount of \$7,572,684. The remainder of the net direct entries is attributable to the same types of transactions as occurred in fiscal year 1997-98.

4. **Nonbudgeted Activity**

During fiscal year 1997-98 and 1998-99, the department recorded nonbudgeted activity in its accounting records as discussed in the following paragraphs:

Nonbudgeted Revenue and Transfers-In

General Fund

For fiscal year 1997-98, General Fund activity consists primarily of \$469,664 in Charges for Services and \$539,045 in Other Financing Sources. The material portion of Charges for Services relates to money collected for the statewide cost allocation plan administered by the Department of Administration. Other Financing Sources is money transferred to the General Fund from Montana State Hospital Revenue Bond accounts. For fiscal year 1998-99, the General Fund activity consists of (1) \$461,422 of Charges for Services which relates to money collected for the statewide cost allocation plan; and (2) \$738,962 of Miscellaneous revenue. The two primary sources for the Miscellaneous revenue are a State Compensation Insurance Fund dividend and an insurance settlement.

Special Revenue Fund

The material amounts of fiscal year 1997-98 Nonbudgeted Revenue and Transfers-In in activity in the Special Revenue Fund are \$9,123,419 of Charges for Services, \$38,354,762 of Other Financing Sources, and \$53,645,691 of Federal. The Charges for Services activity is primarily at the Montana State Hospital from the mental health managed care program. Other Financing Sources consists of transfers for the department's cost allocation plan and transfers for the Montana State Hospital facility loan. The nonbudgeted Federal revenue represents the value of food stamps issued during the year. The material amounts of fiscal year 1998-99 Nonbudgeted Revenue and Transfers-In are \$33,852,868 of Other

Notes to the Financial Schedules

Financing Sources and \$52,873,805 of Federal. These two amounts derive from the same sources as in fiscal year 1997-98.

Debt Service Fund

The Debt Service Fund nonbudgeted activity consists of \$605,401 in Investment Earnings and \$878,047 in Other Financing Sources for fiscal year 1997-98. The respective amounts for fiscal year 1998-99 are \$834,673 and \$990,699. The investment earnings relate to money held for servicing debt on both the Montana Developmental Center and the Montana State Hospital. The Other Financing Sources relate to transfers of funds to meet principal and interest payments on the Montana Developmental Center bonds.

Agency Fund

Agency Fund nonbudgeted activity consists primarily of \$36,622,935 for fiscal year 1997-98 and \$40,388,047 in Miscellaneous revenues. These represent child support payments received by the department from obligated parents on behalf of those custodial parents using the department's child support enforcement services.

Nonbudgeted Expenditures and Transfers-Out

Over 91 percent of the department's fiscal year 1997-98 Nonbudgeted Expenditure and Transfers-Out activity occurred in three of its programs. The Child and Family Services Division accounts for \$55,039,410 of nonbudgeted expenditures, \$53,645,691 of which is the value of food stamps issued during the year. Nonbudgeted expenditures of \$36,741,407 in the Child Support Enforcement Division represent the amount of child support payments remitted by the department to custodial parents. The Indirect Cost Transfers nonbudgeted transfers-out relate to the department's cost allocation plan.

The material fiscal year 1998-99 Nonbudgeted Expenditure and Transfers-Out activity also occurred in three programs. The Human and Community Services Division (\$54,049,985), the Child Support Enforcement Division (\$40,182,444) and the Indirect Cost Transfers (\$33,804,552) programs accounted for 98 percent of the total nonbudgeted activity. Within the Human and Community Services Division, \$52,873,805 is the value of food stamps distributed (see note 5). The Child Support Enforcement Division amount

Notes to the Financial Schedules

represents the amount of child support payments remitted by the department to custodial parents. The Indirect Cost Transfers nonbudgeted transfers-out relate to the department's cost allocation plan.

5. Program Changes

During fiscal year 1998-99, the department created the Human and Community Services Division to which the department moved several functions from its Child and Family Services Division. The combined division recorded total expenditures and transfers-out of \$176,701,700 in fiscal year 1997-98. In fiscal year 1998-99, the Human and Community Services Division recorded total expenditures and transfers-out of \$143,765,342 and the Child and Family Services recorded total expenditures and transfers-out of \$40,779,976.

The Human and Community Services Division administers programs to support the strengths of families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The division is responsible for implementing Montana's welfare reform project, "Families Achieving Independence in Montana." The division also administers: child care, refugee assistance, Medicaid eligibility determination, food stamps, low-income energy assistance, food and commodities distribution, and child and adult food programs.

The Child and Family Services Division administers programs that help protect vulnerable children, youth and adults who suffer from poverty, abuse or neglect. The division administers the following: child protection, family preservation and support, foster care, adoption, building skills for adulthood, and domestic violence prevention programs.

Notes to the Financial Schedules

6. Accounting Records

As discussed in note 1 under basis of presentation, there are instances where a roll-up of SBAS transactions will not agree to year-end SBAS summary reports. These inconsistencies occur when the department makes mid-year changes to its accounting structure and does not reprocess the affected transactions. A description of these inconsistencies follows.

Accounting Record Inconsistencies

Fiscal Year 1997-98	Program	Expenditure Category	Year-End SBAS Summary Reports	SBAS Transaction Roll-up	Difference
	Addictive & Mental Disorders	Transfers	\$13,610,980	\$13,753,103	\$(142,123)
	Indirect Cost Transfers	Transfers	33,301,801	33,159,678	142,123
		Totals	\$46,912,781	\$46,912,781	\$0
Fiscal Year 1998-99	Human & Community Services Division	Benefits & Claims	\$110,849,819	\$110,894,593	\$(44,774)
	Child & Family Services Division	Benefits & Claims	18,275,180	18,230,406	44,774
		Totals	\$129,124,999	\$129,124,999	\$0

In addition to the above differences in expenditures, there is one instance related to revenues. Revenues of \$888,350, associated with the Eastern Montana Veterans' Home, are reported on SBAS summary reports as Federal revenues. The SBAS transaction roll-up reports these revenues as Miscellaneous revenue.

Notes to the Financial Schedules

7. Indirect Cost Transfers

Costs which benefit several activities administered by the department are allocated to those activities through the department's cost allocation plan. The department uses a separate SBAS program to accumulate cost allocation transactions. The Accounting Entity Transfers recorded in this program transfer cash from the benefitting activities to the servicing activities. The transfers represent costs incurred by functions administered by the department's divisions.

The department estimates its servicing activities benefit its divisions as follows:

	Fiscal Year <u>1998-99</u>	Fiscal Year <u>1997-98</u>
Human & Community Services	\$13,792,903	-0-
Child & Family Services	4,589,119	\$17,783,136
Director's Office	14,609	70,927
Child Support Enforcement	1,688,159	2,324,199
Health & Policy Services	12,011,726	9,936,858
Quality Assurance	189,018	299,047
Operations & Technology	18,092	(136,538)
Disability Services	1,383,096	1,317,495
Senior & Long-Term Care	114,546	(1,232)
Addictive & Mental Disorders	<u>277,676</u>	<u>3,703</u>
Total	<u>\$34,078,944</u>	<u>\$31,597,595</u>

As discussed in note 5, the Human & Community Services Division was part of Child & Family Services during fiscal year 1997-98.

The above amounts include corrections of errors made in the immediately preceding year; these corrections contribute to the negative amounts.

Department Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES



MARC RACICOT
GOVERNOR

LAURIE EKANGER
DIRECTOR

STATE OF MONTANA

February 25, 2000

Scott A. Seacat
Legislative Auditor
P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Enclosed is the department's response to the recommendations presented in the financial-compliance audit report for the two fiscal years ending June 30, 1999.

The department is committed to complying with state and federal laws and to the implementation of a financial management control structure that will assist the department in its continuing efforts to improve its effectiveness in providing services to its many clients and providers and in administering those programs.

The department appreciates your staff's efforts, cooperation and professionalism during this audit.

Sincerely yours,

A handwritten signature in cursive script, reading "Laurie Ekanger", is written over the typed name.

Laurie Ekanger
Director

Recommendation #1

We recommend the department implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

Concur. The department began the process of developing a financial management control structure following the receipt of the last audit. Work completed included: the reorganization of the OTD Fiscal Bureau along more functional lines to improve efficiency and communication within the bureau and in its efforts to work with other department programs; the development of internal control questionnaires by the Quality Assurance Division audit staff to assist in assessing the department's fiscal controls; the development of a policy and procedure format and the actual documentation of desk procedures for a number of processes and positions; training provided to bureau staff as well as other fiscal personnel within the department on such topics as fiscal year-end processes and cost allocation along with regular discussions on various topics such as deferrals and accruals, CMIA and the reconciliation of federal reports to the State's accounting system; and correction of most of the errors found in the last audit.

As indicated in the report narrative on prior audit recommendations, the process of developing a financial management system was hampered by continuing staff turnover within the bureau; chronic absences of key staff people; inadequate supervision due to vacancies in key supervisory positions; and the unforeseen resource demands for implementing the state's new accounting system. The department has already taken action to address these issues and move toward the completion of the development and implementation of a financial management system. Actions taken include the following:

1. Reorganization of the fiscal and internal support functions into one bureau within the Operations and Technology Division. These two operations perform functions that routinely interact; the combining of the two areas will eventually provide efficiencies of operation and improved communication.
2. Creation of a separate fiscal policy office that reports directly to the division administrator. The fiscal policy office will focus on the following areas: responding to legislative audit recommendations; the development and implementation of fiscal policies and procedures that provide an appropriate internal control structure for the department; the design and implementation of a more effective and appropriate federally approved public health cost allocation plan and system; and the resolution of various fiscal issues and concerns including those related to the implementation of the state's new financial and human resource system. Separation of this function from the fiscal bureau will provide for more effective and efficient day to day management of the bureau operations and will enable the department to focus on the development of a sound financial management control structure.

3. Review of the fiscal and internal support bureau's business processes following the implementation of the new statewide financial and human resource system. The review of the bureau's business processes by an outside consultant has already generated ideas for efficiencies in the accounts payable and purchasing areas that can be implemented relatively quickly. This study will provide a basis for restructuring these types of processes in the long run to be more efficient and easier to do requiring fewer resources than are currently needed and enabling people to get their work done easier and faster.

DPHHS will provide the Office of the Legislative Auditor and the Legislative Audit Committee a work plan to address the completion of the development of a financial management system for the department. The areas covered in the work plan include the following: organization and staffing of DPHHS fiscal operations; internal control structure review and assessment; fiscal policies and procedures development and implementation; training; reconciliation of payment systems to the state's accounting system; and SABHRS system issues and concerns. The department has asked the Legislative Auditor to provide a follow-up review of the financial management system implementation plan in the September/October time frame.

Recommendation #2

We recommend the department:

- A. Verify and document the allowability of Indian Health Service claims processed between July 1, 1997, and December 31, 1997, in accordance with federal regulations.
- B. Refund the amounts paid for unallowable or undocumented Indian Health Service claims to the Medical Assistance Program.

Concur. The department has already verified all Indian Health Service (IHS) invoices submitted between July 1, 1997, and December 31, 1997. Only two invoices were paid without review during this time period. The IHS program officer position that normally reviews these payments was vacant at the time; it was the intent of the department to retroactively review these invoices once the position was filled. After reviewing the invoices paid during this period, the department determined that an overpayment of \$60,192 had been made. The department has issued a letter to the contractor requesting repayment of this amount. Section 14 of the contract requires the contractor keep records as necessary for assuring quality performance of the contract and section 8 outlines procedures for repayment of any excess payment regardless of whether the contractor or department is responsible for the excess payment. Once payment is received, the department will refund the overpayment amount to the federal government.

Recommendation #3

We recommend the department:

- A. Modify the contract with the Indian Health Service agency to clarify each claim must be submitted within 12 months of its date of service.

- B. Ensure any claims submitted for services provided by the contractor prior to July 1998 are not reimbursed with federal funds.

Concur. The department modified the contract to clarify the timely filing guidelines. The department had amended the contract to cover only those services delivered July 1, 1999, through June 30, 2000. The department has not paid any claims to the contractor that exceeded the 365 day timely filing limit.

Recommendation #4

We recommend the department develop and implement procedures to improve compliance with federal program reporting requirements.

Concur. Department personnel do tie the federal financial reports to the state's accounting records. The differences between the amounts reported in the federal financial reports and amounts reported in the state's accounting records are due primarily to timing differences, e.g. indirect costs are booked in the state's accounting system in the month following the quarter they are reported in a particular federal financial report. An adjustment that is recorded today in the state's accounting system but relates to a prior open grant period is included in a report for that prior period. Errors made in the reporting for the current quarter are corrected in the next quarter's reporting at the request of the federal agency. As a result, the amounts reported on a federal financial report at the end of an interim quarter, other than fiscal year-end or the final report for the grant period, would not necessarily tie directly to the amounts found in the state's accounting records at that point in time. The issue here is one of ensuring that the differences between the amounts reported in the federal financial reports and the state's accounting system are adequately documented and can be clearly identified.

The department will address the need for adequate documentation and reconciliation of these reports in the action plan for the financial management system implementation. The plan includes development of written procedures for completing each report and reconciling them to the state's accounting records, additional training on federal compliance and reporting requirements and development of adequate review processes. Training and design of the documentation procedures will occur prior to the end of April 2000. The actual writing of the procedures and policies will occur over the next 6 to 8 months.

Recommendation #5

We recommend the department:

- A. Draw funds in accordance with federal and state regulations.
- B. Implement procedures to minimize the use of inter-entity loans and advances.
- C. Monitor the results of CMIA and request modification to the agreement when necessary.

- D. Provide adequate training and supervision to staff responsible for making cash draws.

Concur. In May and June 1999, the department completed review of the CMIA agreement and proposed amendments retroactive to July 1, 1998, that more properly reflected the methods used to draw funds for the affected programs. In addition, the department participated in the writing of the new agreement that took effect July 1, 1999, to ensure that the draw down methods described for each grant were appropriate. The federal government has approved and signed both the amendment and agreement. The agreement and its requirements will be reviewed with federal reporting staff and management in March 2000. The department will develop an ongoing review schedule and process to ensure amendments are proposed timely to ensure compliance with the agreement. In addition, the department will provide an information document to supplement training opportunities provided to employees in the federal financial reporting area.

The department administers over 300 grants with various reimbursement schedules. In almost all cases, the federal government reimburses the department well after warrants are issued to benefit recipients and providers. Consequently, the cash is reduced in the state's accounting system in the funds managed by the department several days to several weeks before the department is reimbursed by the federal agency. As a result, individual funds may develop a negative cash balance, at least on the books. Because state law, prior to July 1, 1999, allowed all individual accounting entities (funds) to be cash negative for no more than seven days during the fiscal year and required all entities be cash positive at fiscal year-end, the department requested inter-entity loans to cover the negative cash period created by this timing difference. The department tried to keep the amount requested as small as possible by requesting that all federal entities have the ability to remain negative the entire seven days and still allow payments to go out. Long-term advances are requested when the reimbursement period is over seven days and the amount needed is ongoing. The cash balance in the funds fluctuates as payments are made and reimbursements are received. The general fund earns the interest on any cash balance in these funds including the "float" that occurs between the time the warrants are issued and they actually clear the bank. The department will monitor its inter-entity loan and advance balances and work with the Department of Administration to minimize the use of these loans and advances.

Recommendation #6

We recommend the department:

- A. Review the Medical Assistance Program cost centers to ensure the accounting system applies the correct FMAP rates.
- B. Adjust the accounting records to reflect the use of the proper FMAP rates for the Medical Assistance Program cost centers during fiscal year 1998-99 and refund the necessary amounts to the Medical Assistance Program.

Concur. Although the accounting records reflected the wrong FMAP rates during this time period, the financial reporting staff used the correct

rates on reports to the federal agency and in calculating and drawing Medicaid funds. The department has corrected the accounting records for that time period and is currently reviewing all cost centers to ensure the problem has not occurred this fiscal year. The department will develop review processes to ensure the correct rates are used.

Recommendation #7

We recommend the department:

- A. Monitor subrecipients of federal awards as required by federal regulations.
- B. Refund \$918,394 to the federal Social Services Block Grant program.

Concur. The department and the programs within each department are aware of the subrecipient monitoring requirements of OMB A-133 and require those subrecipients who receive \$300,000 or more in federal monies to be subject to federal audit requirements. The department is currently following up on the issues reported in the discussion related to this recommendation. The Montana WIC Program is aware of the problem of timeliness of monitoring reports to local agencies. Factors such as travel schedules and other workload priorities may cause delays in releasing the reports. The department will review the time frame specified in the state plan and propose appropriate changes.

The Social Services Block Grant subrecipient is audited every two years. Generally, the subrecipient contracts with an outside auditor to do the audit. There had been some problems between the management of the corporation in question and its outside auditor that caused a delay in the start of the audit for the two-year period ending June 30, 1998. Division staff has monitored the situation and in light of potential further delays, has requested that the audit staff in the Quality Assurance Division perform the audit for that two-year period. Department staff believes that federal resources were expended for allowable costs of services to developmentally disabled individuals. Should the department or federal agency determine that this is not correct, the department will refund to the federal government the amount determined to be unallowable.

Recommendation #8

We recommend the department repay \$43,775 to the Aid to Families with Dependent Children program.

Concur. Department personnel believe the document to correct this error processed in the state's accounting system in 1997 and consequently, the amount in question was refunded to the federal government by reducing the amount of federal funds drawn at that time for expenditures incurred. The department is researching the issue and adjustments, if necessary, will be made by quarter ending March 30, 2000.

Recommendation #9

We recommend the department comply with the requirement of 45 CFR part 95, subpart F, and implement a comprehensive risk analysis and system security review plan.

Concur. The department has done extensive work with each of its internal and external systems to assess and mitigate risk in relation to the Year 2000 problem. The department worked with various federal agencies and the Department of Administration to conduct separate reviews and tests throughout 1999 to assess risk and security as well as Y2K compliance. The department will review the related federal regulation regarding this requirement and discuss it with the appropriate federal authorities and develop an action plan for complying with this recommendation.

Recommendation #10

We recommend the department continue to improve review procedures to ensure an accurate and complete Schedule of Expenditures of Federal Awards is submitted to the Governor's Office.

Concur. The department has filled all supervisory positions in the general ledger and financial reporting section of the fiscal bureau operations. This will provide an opportunity for more thorough review of the schedule information. Both supervisory personnel and staff completing the schedule for fiscal year 1997-98 were new to the process. Experience and better review procedures enabled the department to prepare a more accurate and complete schedule for fiscal year 1998-99. The department will document the preparation and review procedures for this schedule along with the other federal reports.

Recommendation #11

We recommend the department ensure food commodity shipments are controlled as required by department policy.

Concur. The commodities warehouse processes approximately 1,500 shipping invoices each year. The warehouse employees do obtain a signature from the receiver for each shipment. The warehouse has changed its processes to ensure that the warehouse drivers also sign for each shipment.

Recommendation #12

We recommend the department implement procedures to ensure the Child Support Enforcement Division computer systems properly reconcile to the statewide accounting system and to each other.

Concur. The department will develop written reconciliation procedures for each of the systems and will include them in the work plan for development of the financial management system. The accounts receivable situation is created because Child Support Enforcement must by law remit payments to the custodial parent within 48 hours of receipt. The full amount received is paid to the custodial parent without waiting to see if the payment received clears the bank. As a result, a balance of over \$200,000 in receivables has accumulated

primarily due to payments not clearing the bank due to non-sufficient funds.

Child Support pays the full amount to the custodial parent. Child Support uses the state's offset system and other collection procedures to collect what is owed the division for non-sufficient fund checks and other receivables. Should the debt prove uncollectable, the department and not the custodial parent must sustain the loss.

Recommendation #13

We recommend the department:

- A. Implement procedures to reconcile AWACS transactions to the primary accounting system.
- B. Complete reconciliations for fiscal years 1997-98 and 1998-99 and process necessary correcting transactions.

Concur. The department completed all reconciliations for fiscal year 1997-98 and 1998-99. The department will review the reconciliations and process appropriate correcting transactions before fiscal year-end 2000, as necessary. The department will develop written reconciliation procedures for this system and ensure that all reconciliations for fiscal year 1999-2000 are completed by fiscal year-end. In addition, a schedule for timely completion of the reconciliation process will be included in the documented procedures.

Recommendation #14

We recommend the department implement policies and procedures which will ensure timely completion and resolution of reconciliations between foster care trust accounts and the accounting records.

Concur. The department completed the reconciliations for fiscal year 1997-98. Due to unanticipated staff turnover and chronic absences of key personnel along with the additional workload created by the development and implementation of the state's new accounting system, the department was unable to complete the reconciliations for fiscal year 1998-99. In addition, the implementation of the state's new accounting system requires developing new reconciliation processes. The department will address this issue by 1) developing written reconciliation procedures for this system; 2) determining what resources are needed to complete the reconciliations for the prior year through the current accounting period; 3) hiring and/or contracting with outside personnel, if necessary, to complete these prior year reconciliations; and 4) assigning responsibility to a position, or positions, for completing the reconciliations, in the future, on a timely basis.

Recommendation #15

We recommend the department:

- A. Implement procedures to reconcile its subsidiary systems to its primary accounting records.
- B. Complete the reconciliations of CAPS and MMIS to the primary accounting records for fiscal years 1997-98 and 1998-99

Concur. The department completed the CAPS reconciliations for fiscal year 1997-98. Due to unanticipated staff turnover and chronic absences of key personnel along with the additional workload created by the development and implementation of the state's new accounting system, and the department was unable to complete the reconciliations for fiscal year 1998-99. In addition, the implementation of the state's new accounting system requires developing new reconciliation processes. The department will address this issue by 1) developing written reconciliation procedures for this system; 2) determining what resources are needed to complete the reconciliations for the prior year through the current accounting period; 3) hiring and/or contracting with outside personnel, if necessary, to complete these prior reconciliation; and 4) assigning responsibility to a position, or positions, for completing the reconciliations, in the future, on a timely basis. The department will include development of reconciliation procedures for the MMIS system in this same process.

Recommendation #16

We recommend the department:

- A. Implement procedures to properly record Agency Fund additions and deductions to property held in trust.

Concur. The implementation of this recommendation requires a number of programming changes to the SEARCHS system. The Child Support Enforcement Division has used revenues and expenditures to account for receipts and disbursements for the past 25 years. When SEARCHS was developed in 1993, it was programmed to record transactions in the agency fund as revenues and expenditures. Since SEARCHS came on line, the division has had to request that the contractor make numerous enhancements to the system to cope with the wave of federal and state law changes that have occurred. Currently, the division is in the process of making changes to SEARCHS for system certification purposes. The division will include the changes needed to correct the accounting in the agency fund with the changes being made for certification purposes. These changes, however, are not expected to be completed until the first of October 2000. For fiscal year 2000, the department will process transactions during the fiscal year-end period to properly record the accounting in the agency fund. The department will include accounting for agency fund transactions in its accounting policy.

- B. Implement procedures to identify and record accounts receivable.

Concur. The receivable amounts accrued by the department for Medicaid drug rebates and third party reimbursements are recorded in the state's accounting records as an offset against the Medicaid expenditure

accrual at fiscal year-end. This is the calculation used to establish the Medicaid budget. The department will submit an EPP request to properly reflect these amounts as revenue with a corresponding increase in Medicaid appropriation authority. The recording of Medicaid drug rebates as receivables may require further review since they are not easily estimated due to a number of variables and may not meet the criteria for recording as revenue as required in state accounting policy. A correcting entry to record the WIC rebates will be processed in March 2000 and the proper accrual transactions will be processed during the fiscal year-end period in future years.

- C. Implement procedures to ensure it complies with state accounting policies concerning expenditure abatements.

Concur. The Medicaid collections from third parties were recorded as expenditure abatements because that was how they were reflected in the department's budget. The department corrected this situation for lien and estate recoveries in the last session; currently, lien and estate recoveries are properly recorded as revenue in the department's accounting records. The department will submit an EPP request to correct the other abatements and to properly record these other monies as revenue in the state's accounting records.

- D. Review its subsidiary detail ledgers and process any necessary corrections for amounts owed to the department by local governments, amounts advanced to vendors and providers, and amounts prepaid to vendors and providers.

- E. Implement controls to ensure its subsidiary detail ledgers accurately reflect the details of accounts at the general ledger level.

Concur - D and E. The department will review the subsidiary detail ledgers balances and research the problem areas. Department personnel will process the transactions necessary to clear inappropriate balances. The department will establish processes to ensure balances are routinely reviewed on a periodic basis and transactions to clear balances are made on a timely basis. At fiscal year-end, department personnel will review balances in prepaid and advance control accounts to ensure the amounts reported are valid transaction balances.

- F. Implement procedures to provide assurance accounting errors are either prevented or detected and corrected in a timely manner.

Concur. The department will review the underlying processes related to these errors and incorporate them in the creation and implementation of its financial management system control structure. The department will take corrective action related to the specific errors reported in this audit before the close of fiscal year-end 2000.

Recommendation #17

We recommend the department review its cash collection and deposit procedures, simplify procedures where warranted, and implement procedures to ensure timely deposits and safeguarding of assets for third party liability collections.

Concur. The department changed its processes for depositing foster care trust account receipts after the last audit in order to ensure a proper segregation of duties as recommended in that audit. The department will review the current process and incorporate additional changes to make it more efficient while maintaining the appropriate internal controls.

The department provided the various cash collection areas with a draft of basic cash receipting policies in August 1999. The department will incorporate these policies in its financial management control structure. The TPL unit is working with the fiscal bureau to develop procedures specific to the unit operations in order to comply with the basic policy requirements. The TPL unit continues to contract with the firm in Boston. The Boston firm has established a process for electronically processing and depositing the money directly into the State's checking account on a daily basis when received.

Recommendation #18

We recommend the department review and revise its payroll distribution procedures to improve their efficiency and effectiveness.

Concur. The department will review the payroll distribution procedures in conjunction with its business process re-engineering project of the contracts and payables area in the bureau. The particular changes recommended are not substantive and will provide some efficiencies that can be incorporated into the function of the bureau operations immediately.

Recommendation #19

We recommend the department work with the Veterans' Home and Montana State Hospital to:

- A. Reassign staff responsibilities to strengthen controls over resident accounts and warehouse inventories.
- B. Reconcile resident accounting records to bank accounts monthly.
- C. Periodically provide a statement of account to residents.
- D. Balance the resident account cash drawer to records of receipts and disbursements daily.

Concur. The department has already implemented these recommendations at the Veterans Home and will immediately implement those recommendations pertaining to Montana State Hospital. The department will include documentation of these processes and policies in the development of its financial management control structure.

Recommendation #20

We recommend the department review SEARCHS table maintenance and priority lists to ensure they comply with state and federal regulations.

Concur. As indicated earlier, in order to cope with all the state and federal law changes that have occurred since SEARCHS first came on line in 1993, the Child Support Enforcement Division has had to make numerous changes to the system. When the legislative audit staff reviewed the table for the enforcement fee in February 1999, the division still had federal and state statutory authority to charge the enforcement fees. The 1999 Montana Legislature removed the state statutory authority to charge the enforcement fees beginning July 1, 1999. When the enforcement fee was cancelled, the division submitted a problem report to the system contractor to initiate programming that would not assess the enforcement fee after June 30, 1999. Though the date was not changed in the table, the maximum charge to the custodial parent for the fee was set at zero dollars, effectively eliminating any enforcement fee charges. The division has submitted a problem report to the contract requesting the date change in the table in addition to the fee cap being left at zero.

The Child Support Enforcement Division will request an enhancement to federal income tax withholding table (FWT) to incorporate all IRS withholding tables. The programming in SEARCHS for child support guidelines uses the FWT to calculate estimated federal income tax liability for the income entered into the calculation for each parent. The design of the table does not allow the entry of all tax brackets contained in the IRS publication on withholding, specifically for income over \$99,999 per year. The problem affects relatively few child support cases for the following reasons: 1) most high income individuals have support calculated by private attorneys or the district courts rather than the Child Support Enforcement Division; 2) the child support guidelines provide that the actual tax liability from tax returns be used whenever possible; 3) the division's experience has found that few high income individuals have a federal tax liability that even approaches the level calculated by the IRS withholding tables; and 4) the division has independent software that incorporates the IRS withholding tables for incomes greater than \$99,999.99 and is used for the guideline calculations when incomes exceed the amounts in the FWT.

The Child Support Enforcement Division concurs with 8 of the 13 priority errors. The division does not concur in its entirety to the priority errors issue as identified in the findings because the other 5 priorities are needed in order to collect voluntary repayments from the following:

- 1) custodial parties who have kept money that should have been turned into the division while receiving TANF; this enables the division to collect the funds due back to the state and is revenue for the division;
- 2) certain cost recovery fees for application of division services and modification of child support orders; these are paid last and are reimbursement to the federal government and revenue to the division;
- 3) paternity blood testing cost recovery fees; the division reimburses the federal government at the match rate of expenditure (90%) and recovers the division's 10% investment in the cost of the paternity testing; these fees are also paid last;

- 4) the enforcement fee which was repealed and is no longer assessed; however, the priority account must be left in place due to litigation filed in federal court; the division will need this account in order to refund fees received in the event an adverse conclusion is reached by the court; and
- 5) medical support fines; these are paid last and deposited into the state's general fund.

The division will submit a problem report to correct the other 8 priority errors.

Recommendation #21

We recommend the department report incidents of theft or suspected theft to the Attorney General and Legislative Auditor, upon discovery, as required by law.

Concur. The department did report the theft or suspected theft in each of these three incidents. However, the legislative auditors did question the timeliness of the reporting. In those situations that warranted it, the police were called in immediately. Though department personnel are aware of the reporting requirement, the process within the department for complying with the requirement is unclear. The department will document the appropriate procedures and distribute them to department personnel within the next month.

Recommendation #22

We recommend the department develop a health care database as required by section 50-4-502, MCA.

Concur. The department would like to comply with this recommendation. However, it has never received appropriation authority or the necessary funds in the form of donations to complete the project. At the same time, neither the department nor the legislature appears to want to eliminate this requirement as they hope the project might happen.

Recommendation #23

We recommend the department:

- A. Liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts; or
- B. Implement an equitable investment income distribution strategy that will allow for equitable distributions of investment earnings to the individual trust accounts.

Concur. The department will review the investment account set-up and determine which approach it take to resolve this issue prior to fiscal year-end 2000.

